



*“Providing Real Solutions to the Puzzle of Global Warming”*

FIRST QUARTER REPORT  
FOR THE PERIOD ENDING  
March 31, 2008



# HTC PUREENERGY INC.

## Form 51-102F1 Management Discussion and Analysis For the Period ending March 31, 2008

### INTRODUCTION

The following Management Discussion and Analysis prepared as of May 30, 2008 should be read together with the Corporation's Unaudited Consolidated Financial Statements for the period ended March 31, 2008 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.

To ensure the integrity and objectivity of the financial data, management maintains a comprehensive system of internal controls, including written policies and procedures. These measures provide reasonable assurance that: material information relating to the Corporation, including its consolidated subsidiaries, is known to management; transactions are authorized, assets are properly safeguarded and reliable financial records are maintained and reliable financial statements are prepared for external purposes in accordance with GAAP. Management believes the Corporation's internal disclosure controls and procedures over financial reporting to be effective.

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward looking statements.

Additional information related to HTC Pureenergy Inc. ("HTC" or the "Corporation") is available for view on SEDAR at [www.sedar.com](http://www.sedar.com).

### CORPORATION OVERVIEW

HTC is actively commercializing CO<sub>2</sub> capture/management technologies for Enhanced Oil Recovery ("EOR") and geological sequestration.

The product development centre for HTC is based at the International Test Centre for CO<sub>2</sub> Capture ("ITC"), located on the campus of the University of Regina in Saskatchewan, Canada.

HTC is a development stage energy technology company, whose mandate is to deliver "**Carbon Clear Solutions**" to solve the pending challenges of energy security and the environmental impact of greenhouse gas emissions which has been identified as the primary source of global

warming and to develop alternative energy technology relating to Hydrogen and Bio-fuels. HTC is commercializing CO<sub>2</sub> capture/management technologies for EOR and geological sequestration.

### **HTC's Carbon Management Product Offer**

**HTC is currently very active in commercializing its CO<sub>2</sub> Carbon Management product offer world-wide:**

**HTC's OEM supply product includes Pureenergy CCS™ CO<sub>2</sub> Capture Systems.**



### **Product Description:**

- Modular Design and constructed, truck transportable CO<sub>2</sub> capture system (future scalability);
- Up to approx. 100 mw coal plant capture capacity/unit;
- Retrofit or Green field CO<sub>2</sub> emitter sites;
- Reduced Capex via reduction of in-field construction costs; and
- Multi-unit train installation for expanding capacities.

### **Markets:**

- Phased introduction for EOR customers;
- Incremental Cap/Trade CO<sub>2</sub> reduction sites; and
- DOE/Government Initiator/demonstrator sites.

## CCS FEED Engine™

HTC's proprietary "process integration & Front End Engineering Design (FEED) Engine" delivers customized precision design solutions for optimized carbon capture systems (CCS).

Other HTC 'CO<sub>2</sub> Capture Management Solutions', provide a range of unique and proprietary technologies and optimization processes:

- CO<sub>2</sub> absorption, **packing structure** design to ensure cost effective, high yield CO<sub>2</sub> separation from various flue gas streams;
- HTC **designer solvent solutions** to optimise separation objectives under varying plant conditions;
- Engineering protocols designed to provide **optimised process integration** to maximize the efficiency of CO<sub>2</sub> capture infrastructure; and
- **Monitor, Command and Control** infrastructure and support services.

## Enhanced Oil Recovery

HTC's Team CO<sub>2</sub> can provide "end to end" solutions for the design and implementation of an EOR Project using CO<sub>2</sub> capture and injection into legacy oil fields.

## Geological Sequestration

The **permanent storage of CO<sub>2</sub>** through injection into assessed and approved underground storage 'vaults', which may include saline aquifers, unmineable coal fields and retired oil fields.

## Risk analysis

Services that provide assessment of potential CO<sub>2</sub> storage formations, potential for CO<sub>2</sub> leakage, methods to sequester CO<sub>2</sub> and related costing estimates including:

- Regulatory over site;
- Remediation methods;
- Monitoring;
- Safe operations;
- Storage engineering;
- Effective site selection; and
- Storage and leakage mechanisms.

## Audit, monitor and mitigation

Global Carbon Audit Centre: In conjunction with its CO<sub>2</sub> capture and other carbon management solutions, HTC can facilitate **independent carbon storage validation** and assurance at each sequestration site. By virtue of the carbon storage validation and assurance audit, HTC will provide 'multi-jurisdictional' and regulatory compliant 'on market' **carbon certificates**, which will be tradable on participating carbon credit exchanges around the world.

## **2008 Objectives and Achievements**

The Corporation continues to experience a significant increase in inquiries about its CO<sub>2</sub> products and services and expects some of this interest to transfer to the proposal for projects. With the increased interest and concern associated with CO<sub>2</sub> emissions, the amount of political debate world-wide and the amount of interest in the markets, the Corporation is pursuing a number of proposals on a variety of projects, from capture of CO<sub>2</sub> emissions for EOR to sequestration projects in Canada, Austral-Asia, the U.S. and Europe. The Corporation is actively involved in a substantial number of projects world-wide and continues to explore additional opportunities. The Corporation continues to build its relationship with related technology suppliers, and actively pursue relationships with large Engineering, Procure and Contract (“EPC”) and Original Equipment Manufacturer (“OEM”) companies that can help HTC develop its CO<sub>2</sub> capture market world-wide.

During the first quarter the Corporation was awarded two process design engagements in Norway, and was heavily involved in Process Engineering bids with numerous large CO<sub>2</sub> emitters for the building of commercial CO<sub>2</sub> Capture Plants. Subsequent to the quarter end, the Corporation was awarded a project in California to manage the CO<sub>2</sub> capture technology optimization deployment at one of the world’s largest existing coal fired power plant CO<sub>2</sub> capture systems. The California company currently captures 800 to 900 tons per day of CO<sub>2</sub> using the post-combustion capture process. HTC’s mandate will be to adapt its optimized CO<sub>2</sub> capture technologies including process flow, operating protocols, heat integration, packing materials and the utilization of advanced solvent operating processes to improve the production and operation of the Corporation’s CO<sub>2</sub> Capture Facility.

Intensive and growing world-wide support for reduction of greenhouse gases continues to create opportunities for the Corporation to participate in a number of CO<sub>2</sub> capture and EOR projects.

Climate change remains in the front and centre position in most countries around the world, and solving this problem is expected to develop into a substantial business opportunity for the Corporation over the next many years.

### **Branding**

HTC continues to actively promote the Corporation and its services at a variety of Canadian and International venues, where HTC’s message has been well received. HTC has taken advantage of this increasing global warming awareness by building its brand awareness world-wide. This was accomplished by increased media exposure, speaking at various trade shows and conferences and focusing on HTC’s relationship with the world renowned ITC for CO<sub>2</sub> capture.

We invite you to review the various Press Releases and News Express Releases completed during the past quarter. This material can be viewed on our web site at [www.htcenergy.com](http://www.htcenergy.com).

## **New Product Development**

### **Hydrogen Generation**

In July, 2007 the Corporation obtained approval for \$1.4 million from the Government of Saskatchewan and \$1.09 million from Sustainable Development Technology Canada, in financing for the construction of a new \$3.7 million hydrogen production demonstration plant being set up at the ITC (“Hydrogen Project”). When completed, the facility will demonstrate how the Corporation’s technology will allow users to produce hydrogen using reformation of methane and bio-based feedstocks, particularly pre-distilled ethanol and a bio-diesel by-product called Glycerol. The technology has the potential to lower the cost of ethanol and bio-diesel production. The Corporation is targeting the industrial small to medium sized hydrogen market, as this product will reduce the high cost of hydrogen transportation due to its onsite generation capabilities. Subsequent to quarter end, the Corporation received the committed Federal and Provincial funding for the Hydrogen Project, and as a result, building and commissioning of the demonstration plant is expected to be completed over the next 12 to 18 months. The Corporation has commenced the engineering and design of this multi-fuel hydrogen production demonstration unit which will feature both the methane and bio-fuel technologies developed by BTC BioEnergy Technologies Corp. (“BTC”) and HTC.

There are a number of competing technologies for the on-site manufacturing of hydrogen, none of which has been adopted as the “defacto leader” in on-site reformation. The Corporation believes its hydrogen production technologies have a competitive advantage due to simplicity of design, ease of delivery of hydrogen based on the existing natural gas network, advanced and improved catalysts, process CO<sub>2</sub> use/capture and scalability of the technology. The demonstration plant recently announced is expected to support management’s assertions about the Corporation’s advantage that has been demonstrated on the laboratory bench, and now can be proven out in a full scale commercial system.

### **Financing**

To offset the cost of ongoing solvent research, the Corporation has received Federal Government assistance which has been applied to reduce research costs.

As previously discussed, the Corporation has secured financing to assist it in the construction of the multi-fuel hydrogen production demonstration unit to help preserve funds for other operations.

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 will explore equity investment opportunities, as and when required, in the Corporation to allow it to meet its ultimate commercialization objectives.

Subsequent to the period the Corporation received additional \$28,092 through the exercise of 9,364 warrants and has received an additional \$144,000 through a private placement of 30,000 common shares which were issued at a price of \$4.80 per common share.

## RISKS AND UNCERTAINTIES

Risks and uncertainty relate to management's ability to seek out and perform timely due diligence to aggregate targeted energy technologies. Full commercialization is partially dependent on CO<sub>2</sub> emitters being incentivized or legislated to adapt CO<sub>2</sub> capture technology and the adoption rate of the new hydrogen economy.

## SUMMARY OF QUARTERLY RESULTS

In thousands of Canadian Dollars	3 months ending March 31, 2008 Un-audited	3 months ending March 31, 2007 Un-audited	Year ending Dec. 31, 2007 Audited	Year ending Dec. 31, 2006 Audited	9 months ending Sept. 30, 2007 Unaudited	9 months ending Sept. 30, 2006 Unaudited	6 months ending June 30, 2007 Unaudited	6 months ending June 30, 2006 Un-audited
Total Revenues	427,297	265,000	270,841	306,892	267,707	278,829	267,707	36,750
Loss* Before unusual items	(193,362)	(330,853)	(2,602,310)	(2,121,902)	(1,725,571)	(1,466,452)	(977,555)	(1,178,312)
Net Income (Loss)	(193,362)	(330,853)	2,271,231	(2,120,982)	(1,683,971)	(1,465,532)	(977,555)	(1,177,392)
Total Assets	20,513,383	12,196,033	20,411,042	12,059,403	11,146,887	10,534,674	11,568,261	10,878,559
Long Term Liabilities	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Shareholder Equity	20,392,939	12,096,525	20,269,156	11,927,678	10,988,708	10,523,073	11,449,823	10,811,213
Cash flow from Operations	(469,572)	(327,695)	(1,925,762)	(1,381,050)	(1,258,499)	(1,128,808)	(827,620)	(855,511)
Increase (decrease) in Cash	506,160	679,515	(301,959)	(970,698)	(68,478)	(802,394)	185,833	(536,938)
Net Income (Loss), on a per-share basis**	(.01)	(.03)	.19	(.20)	(.15)	(.14)	(.09)	(.12)
Net Income (Loss), on a per-share basis diluted**			.15					
Weighted Average common shares	12,846,411	10,493,956	12,062,669	10,146,192	11,201,270	10,029,173	10,843,032	9,995,257

\* Before discontinued operations and extraordinary items.

\*\* 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 year of 12,846,411 (2007 – 12,062,669) and fully diluted shares during 2007 of 15,791,866 (2007 – 15,159,554).

	<b>For the period ended March 31, 2008</b>	<b>For the year ended Dec 31, 2007</b>
Net income (loss) per common share	(.01)	\$ .19
Net income (loss) per common share Fully diluted	-	.15

Diluted net loss per common share is not presented for March 31, 2008 as the effect of common share options would be anti-dilutive.

## REVENUES

For three months ended March 31, 2008 the Corporation had operating revenue of \$427,297 (2007 – 265,000). Revenues arise primarily for consulting projects in Norway. The Corporation is currently in the process of negotiating on a number of commercial proposals, which will be reflected in future quarters.

## INTEREST & OTHER INCOME

The Corporation recorded bank interest earned on short and long term investments and other income for the 3 months ended March 31, 2008 of \$48,763 (2007 - \$12,528 ). The increase is attributable to more funds available to invest in the 2008 period. There is no impact arising from Non-controlling interests in respect to the March 31, 2008 period as the Corporation purchased the remaining interest during the later part of 2007. There was \$4,155 of Non-controlling interest for the previous period ending March 31, 2007 (prior to acquisition).

## OPERATING EXPENSES

Commercialization, Product Development and Administrative expenses for the period were \$439,076 as compared to \$301,130 for the same period in the previous year. The increase is primarily attributable to a higher level of activity in respect to the current period due to an increase in staff levels to meet increasing commercial demand for Process Engineering over the comparable March 31, 2007 period.

Research and Development expenses for the period were \$48,205 as compared to \$71,057 for the same period in the previous year. These expenditures and related intellectual property protection costs represent HTC's on-going commitment to product development at the University of Regina. The decrease in Research and Development expenditures is attributable to timing of receipts from the Federal Government research projects grant revenue.

A significant portion of expenses, in the amount of \$176,665, represents amortization of intangibles associated with the acquisitions of HTC Hydrogen Thermochem Corp. (“Thermochem”) and BTC. The remaining amortization is attributable to operating assets.

## **OPERATING LOSS**

For the period ended March 31, 2008 the Corporation had a net loss of \$193,362 from operations as compared to a net loss of \$335,008 from operations for the same period of the prior year. The improvement is a result of the increase revenues generated from Engineering Services (427,297 in period ending March 2008, as compared to 265,000 March 2007).

## **TOTAL ASSETS**

Total assets were \$20,513,383 as at March 31, 2008, as compared to \$12,196,033 as at March 31, 2007. The increase in total assets is due primarily to the acquisition of the shares of EESTech Inc. (“EESTech”) for an agreed price of \$5,971,320 as well as funds arising from the issuance of the Corporation’s common shares during the later part of 2007.

Included in total assets for 2008 are a short term investments of \$2,000,000 in term deposit maturing July 2, 2008 bearing interest at 3.5% and a short term investment of \$2,006,762 in term deposit maturing June 30, 2008 bearing interest at 3.4%.

On November 29 2007, the Corporation received 10,000,000 shares in EESTech representing 23% of EESTech’s outstanding stock as at December 31, 2007. The Corporation accounts for it’s investment in EESTech using the Cost Method of accounting as it does not believe it has significant influence over EESTech operations currently. HTC does not have a representative on the board of directors nor does it have any officers with EESTech. The Corporation does not expect to own more than 20% of EESTech by December 31, 2008 due to EESTech’s committed and planned share issuances and potential issuances from prior transactions and or dispositions. In January 2008, EESTech issued 2,500,000 shares dropping the percentage the Corporation owns to 22%. In addition, in January 2008, EESTech issued convertible debentures which when converted will further reduce HTC’s percentage ownership in EESTech.

EESTech shares are issued on the US over the counter exchange and are subject to Rule 144 of the US *Securities Act 1933* trading restrictions. As such, they have been considered long term investments and are not as a whole available for resale. Accordingly, they remain valued at cost and have not been restated to their fair market value. As at March 31, 2008 EESTech shares were trading at \$0.59 USD.

## **CURRENT LIABILITIES**

Current liabilities were \$120,444 as at March 31, 2008, as compared to \$99,508 as at March 31, 2007. Increase is primarily due to accounts payable additions resulting from expanded activity levels over the same time last year.

## **SHAREHOLDER'S EQUITY**

As at March 31, 2008 shareholders' equity was \$20,392,939 as compared to \$12,096,525 as at March 31, 2007. Changes are due primarily to additional capital raised during the year. Subsequent to March 31, 2008 shareholders' equity increased by \$172,092.

## **CASH FLOW**

Cash flows from operating activities were (\$469,572) for the three month period ended March 31, 2008, compared to (\$327,695) for the same period ended March 31, 2007. The increase is a direct result of increased commercialization efforts, which has resulted in an increase in Accounts Receivable. Increase in business volume is expected to result in the Corporation being cash flow neutral for the 2008 fiscal year.

## **CHANGE IN CASH POSITION**

Changes in Cash position between March 31, 2008 and 2007 are largely attributable to the ongoing commercialization process as well as continuing research initiatives.

## **LIQUIDITY**

These Consolidated Financial Statements have been prepared on the going concern basis which assumes that the Corporation will realize the carrying value of its assets and satisfy its obligations and commitments as they become due in the normal course of operations. If the going concern basis was not appropriate for these Consolidated Financial Statements, then adjustments would be necessary in the carrying value of assets and liabilities and the reported expenses and the balance sheet classification used.

Management believes there are sufficient funds to meet existing obligations for the next few years and will continue to raise additional funds by means of private placements, public offerings and licensing/royalty opportunities with respect to its intellectual property.

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

## **LONG-TERM COMMITMENTS**

In July 18, 2005 the Corporation entered into a Sponsors' Agreement with the University of Regina, the ITC providing the Corporation access to CO<sub>2</sub> capture technologies developed by the ITC. In terms of the agreement the Corporation is obliged to pay \$50,000 USD, annually, for a period of 3 years. Management is looking to extend this arrangement.

On May 17, 2006 the Corporation extended its agreements with the University of Regina through the execution of a Memorandum of Understanding for research, experimental development and licensing. This document was finalized in an agreement executed on December 8, 2006 with an effective date of June 1, 2006 and was amended by written agreement on December 8, 2006. In terms of the agreement, the Corporation will sponsor an Industrial Research Chair in Clean Energy at the University of Regina until May 31, 2008, with an option to renew for a two year period. During the term of this agreement, the Corporation will supply personal services of a research scientist, Thermochem will make quarterly payments for consumables and equipment of approximately \$8,500 and BTC will make quarterly payments of \$33,320 plus consumables to the University of Regina. The University of Regina and the Corporation further agreed to extend their previously signed Collaborative Research Agreement until May 31, 2008. The Collaborative Research Agreement facilitates research on producing hydrogen by the CO<sub>2</sub> reforming of natural gas, as well as bio-fuel development under recently acquired BTC. Management is looking to extend this arrangement.

On August 4, 2006, the Corporation signed a two year Commercial Alliance & Services Agreement valued at \$2,000,000 USD to provide CO<sub>2</sub> EOR, CO<sub>2</sub> Sequestration and CO<sub>2</sub> Management Services to a U.S. based IGCC utility. During 2007 only preliminary work was done. By agreement services will be paid in a lump sum at completion.

The Corporation completed the funding approval for \$1.4 million from the Government of Saskatchewan and \$1.09 million from Sustainable Development Technology Canada, in financing for the construction of a new \$3.7 million hydrogen production demonstration plant being set up at the ITC. When completed, the facility will demonstrate how the Corporation's technology will allow users to produce hydrogen using reformation of methane and bio-based feedstocks, particularly pre-distilled ethanol and a bio-diesel by-product called Glycerol. The technology has the potential to lower the cost of ethanol and bio-diesel production. The Corporation is targeting the industrial small to medium sized hydrogen market, as this product will reduce the high cost of hydrogen transportation due to its onsite generation capabilities. HTC together with other consortium partners will be responsible for the balance of funding through cash and or contributions of services or other in kind contributions as outlined in the applications. HTC's portion is valued at approximately \$791,000 and will be incurred over the duration of the project.

## CAPITAL RESOURCES

### Share Capital

Authorized:

An unlimited number of common shares

An unlimited number of preferred shares

Issued:	As at March 31, 2008		As at Dec 31, 2007	
	Number	Amount	Number	Amount
Common Shares				
Balance, Beginning of year	14,343,122	\$23,376,540	11,302,329	\$17,306,294
Issued under private placement	-	-	-	-
Issued under exercise of stock options	105,715	317,145	-	-
Issued to acquire Performance CO <sub>2</sub> Integration Inc. (see note 3)	-	-	190,000	499,700
Issued to acquire HTC International Inc. (see note 3)	-	-	70,000	156,100
Issued under private placement	-	-	53,520	133,800
Issued under private placement	-	-	2,727,273	5,280,646
Balance, end of period	14,448,837	\$23,693,685	14,343,122	\$23,376,540

On February 28, 2007, the Corporation acquired all of the issued and outstanding shares of Performance CO<sub>2</sub> Integration Inc. ("Performance") in exchange for 190,000 common voting shares of HTC.

On July 17, 2007, 53,520 common voting shares were issued for the gross proceeds of \$133,800 (\$125,000 USD). These common shares were subject to a hold period under applicable securities law until November 18, 2007.

On September 14, 2007 a total of 70,000 common voting shares were issued at an agreed price of \$2.23 per common share. The common shares were subject to a hold period under applicable securities law until January 15, 2008.

On October 12, 2007 the Corporation closed a private placement with Jacob & Company Securities Inc. and issued 2,727,273 units at a price of \$2.20 per unit, for the gross proceeds of \$6,000,000 (net proceeds after costs \$5,280,646). Each unit consisted of one common share and one common share purchase warrant, with each warrant entitling the holder to purchase one additional common share at a price of \$3.00 per share for a period of 24 months after the date of issuance of the units. The exercise period for the warrants will be accelerated (subject to standard notice terms and exercise conditions) if the common shares of HTC trade on a recognized stock exchange at or above a price of \$5.00 for 20 or more consecutive trading days. The common shares and warrants were subject to a hold period under applicable securities law until February 12, 2008.

On March 14, 2008, 105,715 warrants were exercised at a price of \$3.00 per common share resulting in gross proceeds of \$317,145. The remaining 45,715 warrants expired on March 15, 2008.

**Stock options and warrants:**

During the period, there were no stock options issued to directors, officers, employees or consultants.

The following table reflects the stock option and warrants activity from December 31, 2005 through March 31, 2008 and the weighted average exercise price:

	2008		2007	
	Options	Avg. Price	Options	Avg. Price
Outstanding and exercisable, beginning of year	3,096,885	\$2.93	606,555	\$8.82
Warrants Exercised	(105,715)	3.00	-	-
Expired and cancelled (ii, i)	(45,715)	3.00	(455,125)	10.00
Warrants granted (ii)	-	-	-	-
Extended under different terms (ii)	-	-	(151,430)	5.29
Extended Terms (ii)	-	-	151,430	3.00
Warrants granted (iii)	-	-	2,727,273	3.00
Warrants granted (iv)	-	-	218,182	2.20
Outstanding and exercisable, end of period	2,945,455	\$2.93	3,096,885	\$2.93

- i. During the year ending December 31, 2005 910,250 common shares were issued, including an option to acquire 455,125 additional common shares at \$10.00 per common share, expiring April 11, 2007. These common share options have expired and are cancelled.
- ii. On April 10, 2006, 151,430 common shares were issued, including an option to acquire 151,430 additional common shares at \$5.00 USD per common share, expiring July 1, 2007. During the 2007 year, these terms were modified. Under the new terms, each warrant was exercisable at a price of \$3.00 CDN until April 10, 2008. The exercise term would be shortened to a period of 30 days if for 10 consecutive trading days, the closing price of the outstanding common shares exceeded \$3.53 CDN. During the period, 105,715 warrants were exercised and 45,715 warrants expired, resulting in the issuance of 105,715 common shares.
- iii. On October 12, 2007, 2,727,273 common shares were issued including warrants to acquire 2,727,273 additional common shares at \$3.00 per common share expiring October 12, 2009 (“the Offering”). The exercise price of the warrants will be accelerated if the common shares of HTC trade on a recognized stock exchange at or above a price of \$5.00 for 20 or more consecutive trading days. Subsequent to the first quarter period 9,364 warrants were exercised.
- iv. Jacob & Company Inc. received 218,182 broker warrants (representing 8% of the units issued under the Offering) which entitles the holder to acquire one HTC common share for \$2.20 at any time until April 12, 2009.

## **OFF-BALANCE SHEET ARRANGEMENTS**

Other than described herein the Corporation has no off balance sheet arrangements.

## **TRANSACTIONS WITH RELATED PARTIES**

The Directors and Senior Officers of the Corporation received salaries during the period of \$61,000 (2007 - \$42,000) and Directors' and consulting' fees of \$2,000.

## **PROPOSED AND SUBSEQUENT TRANSACTIONS**

Subsequent to the 2007 year end, the Corporation incorporated a new company called Carbon Management Technologies LLC ("CMT"). CMT will provide CO<sub>2</sub> management, sequestration and EOR solutions to pre-combustion gasification projects and facilities in the United States. Cincinnati, Ohio based CMT will develop and execute on a comprehensive Carbon Management, EOR/Sequestration strategy that will demonstrate the clear opportunity to value CO<sub>2</sub> and manage it to the highest environmental and economic standards. CMT will facilitate an oil production opportunity and the future development of one of America's largest EOR fields in Ohio. Lima Energy Company will facilitate the supply of CO<sub>2</sub> to these Ohio oil fields by providing access to an anticipated 2.8 million tons per year of CO<sub>2</sub>, planned to be captured from Lima Energy Company's new Lima, Ohio gasification facility.

On April 28, 2008 the Corporation issued 30,000 common shares at \$4.80 per common share for the gross proceeds of \$144,000. These common shares are subject to a hold period under applicable securities law until August 29, 2008.

On April 29, 2008 and May 2, 2008 the Corporation issued 1,364 and 8,000 common shares respectively through the exercise of warrants.

## **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 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 dates. HTC accounts for these operations using the purchase method of consolidation. Transactions are summarized below:

	Thermochem	BTC	Performance CO <sub>2</sub>	HTC International Inc.
Acquisition date	December 23, 2004	December 20, 2006	February 28, 2007	September 14, 2007
Share valuation date	June 24, 2004	August 22, 2006	February 28, 2007	Agreed price
Price per share (\$) (approximate)	4.30	1.36	2.63	2.23
Number of shares	2,313,568	591,500	190,000	40,123
Purchase price	\$ 9,948,342	\$803,595	\$499,700	\$89,474
Acquisitions costs	59,021			
Costs of Acquisition				
Current Assets	\$ 799,680	\$ 192,017	\$100	\$4,199
Property Plant & equipment	5,403	-	-	-
Intangible Assets				
Goodwill	5,850,000	574,943	499,600	-
Current Liabilities	3,365,099	100,000	-	132,278
	(12,819)	(63,365)	-	(47,003)
	<u>\$10,007,363</u>	<u>\$803,595</u>	<u>\$499,700</u>	<u>\$89,474</u>

Goodwill and intangible assets arise from the acquisition of the subsidiaries. GAAP requires that 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), 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 tangible and intangible assets. Management continuously evaluates the allocation between goodwill and intangibles. Any adjustments resulting from this process would result in a reclassification.

	March 31, 2008	December 31, 2007
Goodwill	\$3,597,377	\$3,597,377
Intangible Assets not subject to amortization (Plans, Designs, Agreements and Name Branding)	1,580,040	1,580,040
Intangible Assets subject to amortization (Contractual)	5,344,504	5,344,504
Amortization of Intangible Assets	(2,090,353)	(1,913,688)
	<u>\$8,431,568</u>	<u>\$8,608,233</u>

As at the date of the Consolidated Financial Statements, Management is not aware of anything that would impair the value of intangible assets not subject to amortization or goodwill and accordingly has made no provision to reduce these amounts.

## **CHANGE IN ACCOUNTING PRINCIPLES**

The Corporation did not implement any changes to accounting policies during the period.

## **FINANCIAL INSTRUMENTS**

Under standards introduced by the Canadian Institute of Chartered Accountants effective January 1, 2007, all financial instruments will be classified as one of: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other liabilities.

Financial assets and liabilities held-for-trading will be 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, will be measured at amortized cost. Available-for-sale instruments will be measured at fair value with unrealized gains and losses recognized in other comprehensive income. The standards also permit designation of any financial instrument as held-for-trading upon initial recognition. There have been no changes to the financial statement as a result of adopting these standards.

Financial Instruments not otherwise disclosed in the financial statement notes include cash, short term investments, accounts receivable and accounts payable and accrued liabilities and are classified as held for trading and recorded at fair value. Long term Investments except for the investment in EESTech are classified as loans receivable, fair value being approximated by the carrying amount.

The investment in EESTech is classified as available for sale. EESTech 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 remain recorded at cost and have not been adjusted to their fair value as at March 31, 2008 as fair value is not practically determinable.

## **OTHER MD&A REQUIREMENTS**

The Corporation has not yet incurred any research costs that meet the criteria for capitalization.

The Corporation has commenced capitalization of development costs relating to the CCS Pureenergy™ 1000 carbon capture system. Costs accumulated to date are \$101,546.

Expensed Research and Development Costs and Commercialization, product development General and Administration Expenses are included in the March 31, 2008 Financial Statements. Total accumulated Research and Development costs expensed from December 23, 2004 to March 31, 2008 were \$1,038,260. Research and Development Cost incurred by subsidiaries prior to their acquisition are not included in this amount nor are costs incurred directly by the University of Regina.

## **FORWARD LOOKING STATEMENTS**

The information and opinions expressed herein involve 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 these Financial Statements and exhibits, and in those other filings with the Corporation's Canadian regulatory authorities as found in 'www.SEDAR.com'. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements or other future events. We are under no duty to update any of our forward-looking statements after the date of this report, other than as required and governed by law.

Signed "Lionel Kambeitz"  
**LIONEL KAMBEITZ**  
**CHAIRMAN & CEO**

Signed "Jeffrey Allison"  
**JEFFREY ALLISON**  
**CFO**

**HTC PUREENERGY INC.**  
*‘doing business as’*  
**HTC PUREENERGY**

## **Management’s Responsibility for Financial Statements**

### **To the Shareholders of HTC Pureenergy Inc.**

The Management Discussion and Analysis and Consolidated Financial Statements included in the report of HTC Pureenergy Inc. for the periods ended March 31, 2008 and 2007, are the responsibility of Management and have been approved by the Board of Directors (“Board”). Management has prepared the Management Discussion and Analysis and Consolidated Financial Statements in accordance with generally accepted accounting principles (“GAAP”) in Canada. The financial information presented in this report is consistent with that in the Consolidated Financial Statements.

To ensure the integrity and objectivity of the financial data, Management maintains a comprehensive system of internal controls, including written policies and procedures. These measures provide reasonable assurance that transactions are authorized, assets are properly safeguarded and reliable financial records are maintained for external purposes in accordance with GAAP. Management believes the Corporation’s internal disclosure controls and procedures over financial reporting to be effective.

The Board fulfills its responsibility with regard to the financial statements, by meeting periodically with Management, the Audit Committee as well as with the external auditors. The Board is responsible for recommending to the shareholders the engagement or re-appointment of the external auditor. The auditors have free access to the Board to discuss their audit work and the quality of financial reporting.

We have reviewed the filing of the Corporation’s Management Discussion and Analysis, Consolidated Financial Statements, and attachments thereto for the period ended March 31, 2008 contained in this report. Based on our knowledge, 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.

Signed “Lionel Kambeitz”  
**LIONEL KAMBEITZ**  
**CHAIRMAN & CEO**

Signed “Jeffrey Allison”  
**JEFFREY ALLISON**  
**CFO**

**HTC PUREENERGY INC.**  
*'doing business as'*  
**HTC PUREENERGY**

**NOTICE TO READER OF THE INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

The Interim Consolidated Financial Statements for the period ending March 31, 2008, have been prepared by Management in accordance with generally accepted accounting principals in Canada and have not been reviewed by HTC Pureenergy Inc.'s Auditor.

Lionel Kambeitz  
**Lionel Kambeitz**  
**Chairman & CEO**  
May 30, 2008

**HTC PUREENERGY INC.**  
**Consolidated Balance Sheets**  
(In Canadian dollars)

Period ended March 31, 2008 and Year ended December 31, 2007	March 31, 2008 (Unaudited)	December 31, 2007 (Audited)
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 617,684	\$ 111,524
Short term investments	4,006,762	4,700,000
Accounts Receivable	788,934	394,988
Prepaid expense	191,120	148,157
	<u>5,604,500</u>	<u>5,354,669</u>
Property, plant and equipment (note 4)	77,389	60,746
Development (note 5)	101,547	79,487
Long-term investments (note 6)	6,223,674	6,231,917
Patents (note 7)	74,705	75,990
Goodwill and intangibles (note 3)	8,431,568	8,608,233
	<u>\$20,513,383</u>	<u>\$20,411,042</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 120,444	\$ 141,886
Shareholders' Equity:		
Share capital (note 8)	23,693,685	23,376,540
Deficit	(3,300,746)	(3,107,384)
	<u>20,392,939</u>	<u>20,269,156</u>
Future operations (note 1)		
Commitments (note 15)	<u>\$20,513,383</u>	<u>\$20,411,042</u>

See accompanying notes to Consolidated Financial Statements

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

<b>For the three month period ended March 31,</b>	<b>2008</b>	<b>2007</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Revenue:		
Consulting Services	\$ 427,297	\$ 265,000
Expenses:		
Commercialization, product development and Administration	439,076	301,130
Research and development	48,205	71,057
Amortization	182,780	240,349
	670,061	612,536
Loss from operations	(242,764)	(347,536)
Other income:		
Gain on sale of assets	639	-
Interest and other income	48,763	12,528
	49,402	12,528
Net Loss from operations	(193,362)	(335,008)
Non-Controlling Interest (note 3)	-	4,155
Net Loss for the Period	(193,362)	(330,853)
Other Comprehensive Income	-	-
Comprehensive Income (Loss)	(193,362)	(330,853)
Deficit – Beginning of Period	(3,107,384)	(5,378,615)
Deficit – End of Period	\$(3,300,746)	\$(5,709,468)

See accompanying notes to Consolidated Financial Statements

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

For the three month period ended March 31,	2008 (Unaudited) \$	2007 (Unaudited) \$
<b>Cash Flows from Operating Activities:</b>		
Net Loss	\$(193,362)	\$ (330,853)
Items not affecting cash:		
Amortization	182,780	240,349
Non-Controlling interest	-	(4,155)
Gain on sale of assets	(639)	-
Change in working capital other than cash	(458,351)	(233,036)
	(469,572)	(327,695)
<b>Cash flows from investing activities:</b>		
Decrease (Increase) in short-term investment	693,238	1,000,000
Decrease (Increase) on long-term investment	8,243	7,210
Non-participating interest	-	-
Purchase of equipment	(20,834)	-
Capitalized development	(22,060)	-
	658,587	1,007,210
<b>Cash flows from financing activities:</b>		
Cash from issuance of stock	317,145	-
Increase (Decrease) in cash	506,160	679,515
Cash and cash equivalents—Beginning of Period	111,524	413,483
Cash and Cash equivalents – End of Period	\$617,684	\$1,092,998

See Accompanying notes to Consolidated Financial Statements

# HTC PUREENERGY INC.

## Notes to Consolidated Financial Statements

Period ended March 31, 2008 and Year ended December 31, 2007

### 1. Future operations:

HTC Pureenergy Inc. (formerly HTC Hydrogen Technologies Corp.) is incorporated under the *Business Corporations Act* (Alberta).

HTC and its subsidiaries are development stage companies and are commercializing CO<sub>2</sub> capture/storage technologies for Enhanced Oil Recovery (“EOR”) and geological sequestration and are developing hydrogen production and bio-fuel technologies.

These Financial Statements have been prepared on the going concern basis which assumes that the Corporation will realize the carrying value of its assets and satisfy its obligations and commitments as they become due in the normal course of operations. If the going concern basis was not appropriate for these Financial Statements, then adjustments would be necessary in the carrying value of assets and liabilities and the reported expenses and the balance sheet classification used.

Management believes there are sufficient funds to meet existing obligations for the next few years. In addition management is pursuing a number of initiatives that when complete will be sufficient to provide funds for a number of years based on present and anticipated expenditure amounts for the more immediate future. Management expects to continue pursuing additional funds by means of private placements, public offerings and licensing/royalty opportunities with respect to its intellectual property. Management believes that these actions will be sufficient to mitigate concerns associated with the “going concern” assumption used in preparing these Financial Statements.

### 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., BTC BioEnergy Technologies Corp. (“BTC”), and Performance CO<sub>2</sub> Integration Inc. (“Performance”). The Corporation has accounted for the subsidiaries using the purchase method of accounting.

#### **Foreign Currency Translation**

The Corporation utilizes the temporal method for translating foreign currency of integrated foreign operations (CO<sub>2</sub> Technologies Pty Ltd, a wholly owned subsidiary until November 29, 2007). 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.

# HTC PUREENERGY INC.

## Notes to Consolidated Financial Statements

Period ended March 31, 2008 and Year ended December 31, 2007

### 2. Significant accounting policies (continued):

#### Property, plant and equipment

The Corporation amortizes its property, plant and equipment over their estimated useful lives utilizing the declining-balance method at the following annual rates except for leasehold improvements which are amortized on a straight line basis over three years.

Equipment	30%
Vehicles	30%

#### Comprehensive Income and Financial Instruments.

The Canadian Institute of Chartered Accountants has issued new accounting standards: Section 1530, Comprehensive Income and Section 3855, Financial Instruments – Recognition and Measurement effective January 1, 2007. Under the new standards, all financial instruments are classified as one of: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other liabilities.

Financial assets and liabilities 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 will be measured at fair value with unrealized gains and losses recognized in other comprehensive income. The standards also permit designation of any financial instrument as held-for-trading upon initial recognition.

#### 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 and any impairment is charged to earnings as identified.

#### Intangibles

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

#### Research and Development

Research and Development costs are expensed as they are incurred in accordance with specific criteria set out under Canadian GAAP. Product development costs associated with the development of the CCS Pureenergy™ 1000 are being capitalized in accordance with the specific criteria laid out under Canadian GAAP.

# **HTC PUREENERGY INC.**

## **Notes to Consolidated Financial Statements**

**Period ended March 31, 2008 and Year ended December 31, 2007**

### **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 evaluated for impairment and any impairment is charged to earnings as identified.

### **Stock-based compensation**

The Corporation has a stock based compensation plan as described in note 9. The Corporation uses the fair value based method to account for stock-based payments to non-employees and employees awards, that are direct awards of stock, call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by issuance of equity instruments granted on or after January 1, 2002. No compensation expense is recognized for all other stock based compensation. Any consideration paid by employees on the exercise of stock options or purchase of stock is credited to share capital.

There is currently no stock based compensation offered to employees or directors of the Corporation.

### **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 and disclosed in accordance with Canadian GAAP requirements.

### **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.

### **Use of estimates**

Management of the Corporation has made a number of estimates and assumptions relating to the reporting of assets and liabilities and 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 to prepare these Financial Statements in conformity with Canadian GAAP. Actual results could differ from these estimates.

# HTC PUREENERGY INC.

## Notes to Consolidated Financial Statements

Period ended March 31, 2008 and Year ended December 31, 2007

### 3. Business acquisition:

On December 23, 2004, the Corporation completed the acquisition of 100% of the authorized shares of Thermochem for a purchase price of \$9,948,342, funded through the issuance of 2,313,568 common shares of the Corporation plus acquisition costs of \$59,021. The value of each common share issued of \$4.30 was based on the average closing market price of the Corporation's common shares three days prior and three days subsequent to the announcement date of the acquisition agreement, being June 24, 2004. The acquisition of Thermochem has been accounted for under the purchase method with the Corporation identified as the acquirer. Accordingly, the results of operations of Thermochem have been consolidated from the date of acquisition of December 23, 2004. The costs of acquisition were allocated to the acquired assets as follows:

Current assets	\$ 799,680
Property, plant and equipment	5,403
Intangible assets	5,850,000
Goodwill	3,365,099
Current liabilities	<u>(12,819)</u>
Purchase price	<u>\$10,007,363</u>

On November 24, 2006, the Corporation completed the acquisition of 100% of the authorized shares of CO<sub>2</sub> Technologies Pty Ltd ("CO<sub>2</sub> Technologies") (an Australian registered company) for a purchase price of \$1,256,460, funded through the issuance of 602,000 common shares of the Corporation. The value of each common share issued of approximately \$2.09 was based on the average closing market price of the Corporation's common shares three days prior and three days subsequent to the to the acquisition date being November 24, 2006. The acquisition of CO<sub>2</sub> Technologies has been accounted for under the purchase method with the Corporation identified as the acquirer. Accordingly, the results of operations of CO<sub>2</sub> Technologies have been consolidated from the date of acquisition of November 24, 2006. The costs of acquisition were allocated to the acquired assets as follows:

Current assets	\$ 9,737
Property, plant and equipment	472
Intangible assets	888,650
Goodwill	359,282
Current liabilities	<u>(1,681)</u>
Purchase price	<u>\$1,256,460</u>

# HTC PUREENERGY INC.

## Notes to Consolidated Financial Statements

Period ended March 31, 2008 and Year ended December 31, 2007

### 3. Business acquisition (continued):

On November 29, 2007 the Corporation sold its subsidiary CO<sub>2</sub> Technologies for 10,000,000 shares of EESTech Inc. ("EESTech") (see note 6).

On December 20, 2006, the Corporation completed the acquisition of 100% of the authorized shares of BTC for a purchase price of \$803,595, funded through the issuance of 591,500 common shares of the Corporation. The value of each common share issued of approximately \$1.36 was based on the average closing market price of the Corporation's common shares three days prior and three days subsequent to the announcement date of the acquisition agreement, being August 22, 2006. The acquisition of BTC has been accounted for under the purchase method with the Corporation identified as the acquirer. Accordingly, the results of operations of BTC have been consolidated from the date of acquisition of December 20, 2006. The costs of acquisition were allocated to the acquired assets as follows:

Current assets	\$192,017
Intangible assets	574,943
Goodwill	100,000
Current liabilities	<u>(63,365)</u>
Purchase price	<u>\$803,595</u>

On February 28, 2007 HTC acquired all the issued and outstanding shares of Performance in exchange for 190,000 common shares of HTC, for purchase consideration of \$499,700. The value of each common share issued of \$2.63 was based on the average closing market price of the Corporation's common shares three days prior and three days subsequent to the acquisition date being February 28, 2007. The acquisition is accounted for using the purchase method of consolidation. The costs of the acquisition were allocated to the acquired assets as follows:

Current assets	\$ 100
Intangible assets	<u>499,600</u>
Purchase price	<u>\$499,700</u>

# HTC PUREENERGY INC.

## Notes to Consolidated Financial Statements

Period ended March 31, 2008 and Year ended December 31, 2007

### 4. Business acquisition (continued):

During the fiscal year ended 2006, the Corporation acquired 51% of the voting stock of a newly formed company, HTC International Inc., for nominal consideration. As the company was newly formed there were no assets or liabilities at acquisition date. The Corporation accounted for this acquisition using the purchase method of accounting. On September 14, 2007 HTC acquired the remaining 49% interest held outside the company. Under the terms of the acquisitions, HTC issued 47,500 common shares at an agreed price of 2.23 per common share in exchange for the remaining 49 % of the company and assignment a loan amount payable of \$16,451 to the minority holder. Share purchase consideration is accordingly \$89,474 or approximately 40,123 common shares. The costs of acquisition were allocated to the acquired the remaining 49% are as follows:

Current assets	\$ 4,199
Goodwill	132,278
Current liabilities	<u>(47,003)</u>
Purchase price	<u>\$ 89,474</u>

Goodwill and intangible assets arise from the acquisition of the subsidiaries. GAAP requires that 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 tangible and intangible assets. Management continuously evaluates the allocation between goodwill and intangibles. Any adjustments resulting from this process would result in a reclassification between identifiable intangible assets and goodwill.

# HTC PUREENERGY INC.

## Notes to Consolidated Financial Statements Period ended March 31, 2008 and Year ended December 31, 2007

### 3. Business acquisition (continued):

	March 31, 2008	Dec 31, 2007
Goodwill	\$3,597,377	\$3,597,377
Intangible Assets not subject to amortization (Plans, Designs, Agreements and Name Branding)	1,580,040	1,580,040
Intangible Assets subject to amortization (Contractual)	5,344,504	5,344,504
Amortization of Intangible Assets	(2,090,353)	(1,913,688)
	\$8,431,568	\$8,608,233

As at the date of the Financial Statements, Management is not aware of anything that would impair the value of intangible assets not subject to amortization or goodwill and accordingly has made no provision to reduce these amounts.

### 4. Property, plant and equipment:

As at March 31, 2008	Cost	Accumulated Amortization	Net Book Value
Equipment	\$296,969	\$241,713	\$55,256
Leasehold improvements	16,174	11,372	4,802
Vehicles	29,565	12,234	17,331
	\$342,708	\$265,319	\$77,389

  

As at Dec 31, 2007	Cost	Accumulated Amortization	Net Book Value
Equipment	\$272,732	\$238,708	\$34,024
Leasehold improvements	16,174	10,915	5,259
Vehicles	36,566	15,103	21,463
	\$325,472	\$264,726	\$60,746

# HTC PUREENERGY INC.

## Notes to Consolidated Financial Statements

Periods ended March 31, 2008 and Year ended December 31, 2007

### 5. Product Development

Product development costs represent costs incurred to date in connection with the design and construction of the CCS Pureenergy™ 1000. There will be no provision for amortization of these costs until the product costs are in and the unit is complete.

### 6. Long term investments:

	March 31, 2008	Dec 31, 2007
Note receivable non-interest bearing recoverable in 56 monthly payments classified as loans receivable, fair value being approximated by the carrying amount.	\$47,668	\$51,874
Agreement receivable generating revenue of 1.08% recoverable in \$10,000 on April 1/06 and thereafter 120 monthly payments of \$1,200 with a lump sum payment of \$104,121 on April 1, 2016 classified as loans receivable, fair value being approximated by the carrying amount.	204,686	208,723
EESTech investment in 10,000,000 common shares (see note below classified as available for sale.	5,971,320	5,971,320
	<u>\$6,223,674</u>	<u>\$6,231,917</u>

On Nov. 29, 2007, the Corporation received 10,000,000 shares in EESTech representing 23% of EESTech's outstanding stock as at December 31, 2007. The Corporation accounts for its investment in EESTech using the Cost Method of accounting as it does not believe it has significant influence over EESTech operations currently. It does not sit on the board of directors, does not have any officers with EESTech, and does not expect to own more than 20% of EESTech by Dec 31, 2008 as a result of EESTech's subsequent issuances, committed and planned issues and potential issuances from prior transactions and or dispositions by the Corporation. In January 2008, EESTech issued a further 2,500,000 shares dropping the percentage the Corporation owns to 22%. In addition in January 2008, EESTech issued convertible debentures which when converted will further reduce HTC's percentage ownership in EESTech.

EESTech 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 remain recorded at cost and have not been adjusted to their fair value as at March 31, 2008 as fair value is not practically determinable.

# HTC PUREENERGY INC.

## Notes to Consolidated Financial Statements

Periods ended March 31, 2008 and Year ended December 31, 2007

### 7. Patents:

Patents are comprised of:

	March 31, 2008	Dec 31, 2007
Patent applications costs	\$ 77,094	\$ 77,094
Amortization of patents	2,389	1,104
	\$74,705	\$75,990

Patents are amortized on a straight line bases over a 15 years.

### 8. Share capital:

Authorized:

An unlimited number of common shares

An unlimited number of preferred shares

	As at March 31, 2008		As at Dec 31, 2007	
	Number	Amount	Number	Amount
Common Shares				
Balance,				
Beginning of year	14,343,122	\$23,376,540	11,302,329	\$17,306,294
Issued under private placement	-	-	-	-
Issued under exercise of stock options	105,715	317,145	-	-
Issued to acquire Performance CO <sub>2</sub> Integration Inc. (see note 3)	-	-	190,000	499,700
Issued to acquire HTC International Inc. (see note 3)	-	-	70,000	156,100
Issued under private placement	-	-	53,520	133,800
Issued under private placement	-	-	2,727,273	5,280,646
Balance, end of period	14,448,837	\$23,693,685	14,343,122	\$23,376,540

# HTC PUREENERGY INC.

## Notes to Consolidated Financial Statements

Period ended March 31, 2008 and Year ended December 31, 2007

### 8. Share capital (continued):

On April 10, 2006 the Corporation issued 151,430 units, each unit consisting of one common share and one common share purchase warrant, for the gross proceeds of \$589,749 (\$530,000 USD). Each warrant entitles the holder to acquire an additional one common share until July 1, 2007 for the Canadian equivalent of \$5.00 USD per share on the exercise date. During the previous year, these terms were modified. Under the new terms, each warrant was exercisable at a price of \$3.00 CDN until April 10, 2008. Under the new terms, the exercise term would be shortened to a period of 30 days if for 10 consecutive trading days, the closing price of the outstanding common shares exceeds \$3.53 CDN. During this period, 105,715 warrants were exercised resulting in the issuance of 105,715 common shares, and 45,715 warrants expired.

On July 17, 2007, 53,520 common shares were issued for the gross proceeds of \$133,800 (\$125,000 USD). These common shares were subject to a hold period under applicable securities law until November 18, 2007.

On September 14, 2007 a total of 70,000 common shares were issued at an agreed price of \$2.23 per common share. These common shares were subject to a hold period under applicable securities law until January 15, 2008.

On October 12, 2007 the Corporation closed a private placement with Jacob & Company Securities Inc. ("Jacob & Company") and issued 2,727,273 units at a price of \$2.20 per unit, for the gross proceeds of \$6,000,000 (net proceeds after costs \$5,280,646). Each unit consisted of one common share and one common share purchase warrant, with each warrant entitling the holder to purchase one additional common share at a price of \$3.00 per share for a period of 24 months after the date of issuance of the units. The exercise period for the warrants will be accelerated (subject to standard notice terms and exercise conditions) if the common shares of HTC trade on a recognized stock exchange at or above a price of \$5.00 for 20 or more consecutive trading days. The common shares and warrants were subject to a hold period under applicable securities law until February 12, 2008.

### 9. 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. As at March 31, 2008 there were no stock options issued to directors, officers, employees or consultants.

# HTC PUREENERGY INC.

## Notes to Consolidated Financial Statements

Period ended March 31, 2008 and Year ended December 31, 2007

### 9. Stock options and warrants (continued):

The following table reflects the stock option and warrants activity from January 1, 2007 through March 31, 2008 and the weighted average exercise price:

	2008		2007	
	Options	Avg. Price	Options	Avg Price
Outstanding, and exercisable, beginning of year	3,096,885	\$2.93	606,555	\$8.82
Warrants Exercised	(105,715)	3.00	-	-
Expired and cancelled (ii,i)	(45,715)	3.00	(455,125)	10.00
Warrants granted (ii)	-	-	-	-
Extended under different terms (ii)	-	-	(151,430)	5.29
Extended Terms (ii)	-	-	151,430	3.00
Warrants granted (iii)	-	-	2,727,273	3.00
Warrants granted (iv)	-	-	218,182	2.20
Outstanding and exercisable, End of period	2,945,455	\$2.93	3,096,885	\$2.93

- i. During the year ending December 31, 2005, 910,250 common shares were issued, including an option to acquire 455,125 additional common shares at \$10.00 per common share, expiring April 11, 2007. These common share options have expired, and are cancelled.
- ii. On April 10, 2006, 151,430 common shares were issued, including warrants to acquire 151,430 additional common shares at \$5.00 USD per common share, expiring July 1, 2007. During the year, these terms were modified. Under the new terms, each warrant would be exercisable at a price of \$3.00 CDN until April 10, 2008. The exercise term would be shortened to a period of 30 days if for 10 consecutive trading days, the closing price of the outstanding common shares exceeds \$3.53 CDN. During the period, 105,715 warrants were exercised resulting in the issuance of 105,715 common shares and 45,715 warrants expired.
- iii. On October 12, 2007, 2,727,273 common shares were issued including warrants to acquire 2,727,273 additional common shares at \$3.00 per common share expiring October 12, 2009 ("the Offering"). The exercise price of the warrants will be accelerated if the common shares of HTC trade on a recognized stock exchange at or above a price of \$5.00 for 20 or more consecutive trading days. Subsequent to the period, 9,364 warrants were exercised as at date of this report.
- iv. Jacob & Company received 218,182 broker warrants (representing 8% of the units issued under the Offering) which entitled the holder to acquire one HTC share for \$2.20 at any time until April 12, 2009. The estimated stock based compensation cost associated with the issue of these warrants is not material and has not been recorded as contributed surplus with a corresponding adjustment to issuance costs in share capital.

# HTC PUREENERGY INC.

## Notes to Consolidated Financial Statements

Period ended March 31, 2008 and Year ended December 31, 2007

### 10. Financial instruments:

Financial Instruments not otherwise disclosed include cash, short term investments, accounts receivable and accounts payable and accrued liabilities and are classified as held for trading and recorded at fair value.

### 11. Unusual item:

The unusual items below, do not pertain to the income statement information for the first quarter period ending March 31, 2008, but are relevant to the balance sheet.

On Sept 14, 2007 as part of the terms of acquiring the remaining 49% interest of HTC International Inc., the Corporation paid \$44,600 in order to settle any potential claims arising from royalties or commission that may have been payable to the 49% stakeholder. These funds were utilized to purchase additional shares in HTC at a negotiated price of \$2.23 per common share.

On November 29, 2007, the Corporation completed the sale of its shares of CO2 Technologies in exchange for the shares of EESTech at an agreed price resulting in a gain on sale of disposition of \$4,918,141.

### 12. Provision for income taxes:

The Corporation does not make adjustments for income tax on an interim basis. As at December 31, 2007 the Corporations tax position was as follows: Income tax provision (recovery) differs from the amount that would be computed by applying the Federal and Provincial statutory income tax rate of 36% (2006 – 39%) for the following reasons:

As at December 31	2007	2006
Computed income tax provision (recovery)	817,643	(827,183)
Reduction in basic rate attributable to capital gains	(848,675)	-
Recovery based on current operations		
Utilization of capital loss carry forwards	(62,493)	-
Current operations excluding capital gains	(952,888)	
	(1,046,413)	(827,183)
Adjustment net future tax assets for enacted changes in tax laws and rates and other differences	-	-
Change in valuation allowance	1,046,413	827,183
	\$ -	\$ -

# HTC PUREENERGY INC.

## Notes to Consolidated Financial Statements

Period ended March 31, 2008 and Year ended December 31, 2007

### 12. Provision for income taxes (continued):

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, 2007 the Corporation had an anticipated balance of approximately \$268,325 of tax credits available to reduce future year taxes (expiring in December 31, 2015 and 2017). 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, 2006 the Corporation has approximately \$1,630,084 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.

The Corporation has approximately \$2,828,389 of non-capital losses available at December 31, 2006 to reduce taxable income of future years. These losses expire in periods from 2008 – 2027.

The Corporation has undepreciated capital cost claims in excess of net book value of approximately \$233,321 available to reduce future year's taxes. In addition, the Corporation has capitalized \$770,906 of share issuances costs which are deductible for tax purposes on straight-line basis over 5 years of which \$781,104 is available for future years.

### 13. Per share amounts:

Basic net earnings (loss) per common share have been calculated using the weighted average number of common shares outstanding during the year of 12,846,411 (2007 – 12,062,669) and fully diluted shares during 2007 of 15,791,866 (2007 – 15,159,554).

	For the period ended March 31, 2008	For the year ended Dec 31, 2007
Net income (loss) per common share	(.01)	\$ .19
Net income (loss) per common share Fully diluted	-	.15

Diluted net loss per common share is not presented, in respect to the March 31, 2008 as the effect of common share options would be anti-dilutive.

**HTC PUREENERGY INC.**  
**Notes to Consolidated Financial Statements**  
**Periods ended March 31, 2008 and Year ended December 31, 2007**

**14. Supplemental cash flow information:**

	March 31, 2008	Dec 31, 2007
Cash interest paid during the year	\$ 508	\$ 883
Cash interest received during the year	36,095	87,735

**15. Commitments:**

On May 17, 2006 the Corporation extended its agreements with the University of Regina through the execution of a Memorandum of Understanding for Research and Experimental Development and Licensing. This document was finalized in an agreement executed on December 8, 2006 with an effective date of June 1, 2006 and was amended by written agreement on December 8, 2006. In terms of the agreement, HTC will sponsor an Industrial Research Chair in Clean Energy at the University of Regina until May 31, 2008, with an option to renew for a two year period. During the term of this agreement, HTC will supply personal services of a research scientist. Thermochem will make quarterly payments for equipment and consumables of approximately \$8,500 and BTC will make quarterly payments of \$33,320 plus consumables to the University of Regina. Management is currently discussing extension of this agreement.

On July 18, 2005 the Corporation entered into a Sponsors' Agreement with the University of Regina, the International Test Centre for CO<sub>2</sub> Capture ("ITC"), providing the Corporation access to CO<sub>2</sub> capture technologies developed by the ITC. In terms of the agreement the Corporation is obliged to pay \$50,000 USD annually, for a period of 4 years.

**16. Subsequent Events:**

Subsequent to the 2007 year end, the Corporation incorporated a new company called Carbon Management Technologies LLC ("CMT"). CMT will provide CO<sub>2</sub> management, sequestration and EOR solutions to pre-combustion gasification projects and facilities in the United States. Cincinnati, Ohio based CMT will develop and execute on a comprehensive Carbon Management, EOR/Sequestration strategy that will demonstrate the clear opportunity to value CO<sub>2</sub> and manage it to the highest environmental and economic standards. CMT will facilitate an oil production opportunity and the future development of one of America's largest enhanced oil recovery fields in Ohio. Lima Energy Company will facilitate the supply of CO<sub>2</sub> to these Ohio oil fields by providing access to an anticipated 2.8 million tons per year of CO<sub>2</sub>, planned to be captured from Lima Energy Company's new Lima, Ohio gasification facility.

**HTC PUREENERGY INC.**  
**Notes to Consolidated Financial Statements**  
**Period ended March 31, 2008 and Year ended December 31, 2007**

**16. Subsequent Events (continued):**

On April 28, 2008 the Corporation issued 30,000 common shares at \$4.80 per common share for the gross proceeds of \$144,000. These common shares are subject to a hold period under applicable securities law until August 29, 2008.

On April 29, 2008 and May 2, 2008 the Corporation issued 1,364 and 8,000 common shares respectively through the exercise of warrants for gross proceeds of \$28,092.

# Board of Directors & Senior Officers of the Corporation as at March 31, 2008

**Directors:**

Lionel Kambeitz,  
Regina, Saskatchewan,

Jeffrey Allison,  
Regina, Saskatchewan,

Wayne Bernakevitch,  
Regina, Saskatchewan,

James Rybchuk,  
Regina, Saskatchewan,

**Senior Officers:**

Lionel Kambeitz, Chairman and CEO  
Jeffrey Allison, CFO

**Committees of the Board of Directors:**

Audit Committee  
Compensation Committee  
Nominating Committee

**Members of Audit Committee:**

Lionel Kambeitz, Jeffrey Allison 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 March 31, 2008:** 14,448,837

**Head office and Investor relations address:**

**HTC PUREENERGY**

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Telephone: (306) 352-6132  
Fax: (306) 545-3262  
E-mail: [investorinfo@htcenergy.com](mailto:investorinfo@htcenergy.com)

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P.O. Box 622  
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Telephone: +61 7 3832 9883  
Fax: +61 7 3832 1336

**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

**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**

**De Castro, PC, Attorneys at Law, San Diego 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.