



*"Providing Real Solutions to the Puzzle of Global Warming"*

FIRST QUARTER REPORT  
FOR THE PERIOD ENDING  
March 31, 2009



# HTC PUREENERGY INC.

## Form 51-102F1 Management Discussion and Analysis For the Period ending March 31, 2009

### INTRODUCTION

The following Management Discussion and Analysis is prepared as of May 29, 2009 and should be read together with the Corporation's Unaudited Consolidated Financial Statements for the period ended March 31, 2009 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.

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's commercial business is the development, aggregation and commercialization of proprietary technologies relating to CO<sub>2</sub> capture and storage as well as H<sub>2</sub> production utilizing CO<sub>2</sub>. These technologies have been acquired, licensed, developed internally, and developed in partnership with the University of Regina and the Greenhouse Gas Technology Centre, a leading center of research for CO<sub>2</sub> capture and storage.

The establishment of a specialized commercial entity focusing on "carbon clear" technologies was driven by rapidly expanding international efforts to mitigate the adverse effects of greenhouse gas emissions on climate change, through:

- CO<sub>2</sub> capture and sequestration (e.g., permanent underground storage).
- Rising conventional energy (oil and gas) prices, which make CO<sub>2</sub> a valuable commodity as an agent for enhanced oil recovery ("EOR").
- The need to provide the market solutions derived from the aggregation of market leading, fully validated technologies that can be commercially sourced from a single point of contact. That contact would be an organization that could engage in commercial service and technology licensing agreements with commercial accountability and sustainability.

## HTC's Carbon Management Product Offer

HTC is currently very active in commercializing its CO<sub>2</sub> Carbon Management product offer world-wide, an outline of our current product offering includes:

**HTC's Original Equipment Manufacturer ("OEM") supply product includes Pureenergy CCS™ CO<sub>2</sub> Capture Systems. 'The world's first Pre-engineered Modular Design© post-combustion CO<sub>2</sub> capture system, customized to site requirements of regional and global electricity producers, industrial processors and other CO<sub>2</sub> emitters.'**



**HTC's Pureenergy CCS™ Capture System** offers a 'world first' economically viable commercial scale CO<sub>2</sub> 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 Pureenergy™ 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 of the University of Regina, Canadian & International engineering groups, international engineering-procure-construct companies and HTC Pureenergy.

### **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 **RS™ (Regina Solvents) designer solvent solutions** to optimise separation objectives under varying plant conditions;
- HTC **TKO™ (Thermal Kinetics Optimization)** reduces the thermal energy requirements to capture CO<sub>2</sub>
- Engineering protocols designed to provide **optimised process integration** to maximize the efficiency of CO<sub>2</sub> capture infrastructure; and

- **CO<sub>2</sub> NTROL™** An artificial intelligence system has been developed that is unique in the world in operating and monitoring CO<sub>2</sub> capture systems.
- **Reclaimer** – HTC has developed a multi-phased reclaimer for mixed amines. The reclaimer removes the impurities from solvents in an operating environment, thus extending the life of the solvent and lowering operating costs.

## 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.

HTC has licensed **Conformance Max™** gel and foam technology and **EOR Engine™** products that improves the efficiency of CO<sub>2</sub> enhanced oil recovery.

## Geological Sequestration

**Carbon Vault™**; 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 self performed and provided by collaborative partners, 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:

- Remediation methods;
- Monitoring;
- Storage engineering;
- Effective site selection; and
- Storage and leakage mechanisms.

## Carbon 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.

## Highlights of 2009 Operations and Achievements

The first Quarter of 2009 has seen a dramatic increase in public awareness, published news releases and government interests. There appears to be a growing interest around the world to make carbon capture and sequestration a priority. As HTC has had the benefit of drawing from the University of Regina’s 20 years of research in this area, the Corporation is in the lead in the

area of carbon capture commercialization. Not only are other companies in need of the cutting edge technology but they also have to overcome the obstacles created by outdated costing

information that does not consider the innovations and new technological advances derived from the years of collaborative research between HTC and the University of Regina.

During the quarter the Corporation worked extensively with 18 engineers from Doosan Babcock Energy Limited and Doosan Heavy Industries & Construction Co., Ltd. (together “Doosan Babcock”) who were sent to the University of Regina’s International Test Centre (“ITC”), located in Regina, to obtain a key understanding of the CO<sub>2</sub> capture technology and capabilities. These engineers will now provide a resource for Doosan Babcock to actively pursue contracts globally using HTC technology under the Corporation’s licensing arrangements. Doosan Babcock is now in a position to take the HTC\University of Regina technology commercial on a global scale.

During the first quarter the Corporation completed a review of its current resources and anticipated requirements. HTC has identified several areas where additional internal resources can be provided. There is a need to outsource some of the promotional aspects of the operation to help inform the global community and potential customers that HTC’s carbon capture technology is available for commercialization and to inform them of the new realities of reduced costs to capture carbon realized through HTC suit of services. The first quarter operations were marked by significant activity associated with organizing and making sure the components are in place for the anticipated contracts and demand for services. The Corporation has relocated and consolidated its operations within the University of Regina campus to be closer to the ITC and to provide the necessary space for the Corporation’s expanded engineering and administrative teams. Relocation will be completed by the second quarter of 2009.

The Corporation continues to experience a significant increase in demand for our CO<sub>2</sub> products and services. 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 retrofit and green field technology integration relationships with large Engineering, Procure and Contract (“EPC”) and OEM companies that can help HTC develop its CO<sub>2</sub> capture market world-wide. The licensing agreement for CCS technology reached with world leading power plant equipment supplier and power plant EPC constructors - Doosan Babcock not only significantly increases HTC ability to reach the market, but also provides confirmation of the strength of HTC technology and plant integration synergies.

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

## **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 climate change priority by building its brand awareness world-wide. This was accomplished by increased media exposure, key note speaking engagements at various trade

shows and conferences and focusing on HTC's relationship with the world renowned International Test Centre for CO<sub>2</sub> capture.

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

### **Hydrogen Generation Research and Development**

The Corporation has commenced a comprehensive FEED Study of the hydrogen production demonstration plant being set up at the ITC ("Hydrogen Demonstration Project. The FEED Study was completed during the quarter, and the corporation is now looking to move on to the next phase of the project, which is to build the plant. 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. During the 2008 year the Corporation received part of the committed Federal and Provincial funding.

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 Hydrogen Demonstration Plant 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**

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

### **RISKS AND UNCERTAINTIES**

Risks and uncertainty relate to dependence of CO<sub>2</sub> emitters being incentivized or legislated to adapt CO<sub>2</sub> capture technology and the price of oil for adoption of CO<sub>2</sub> enhanced oil recovery.

## SUMMARY OF CUMULATIVE QUARTERLY RESULTS

In Canadian Dollars	3 months ending March 31, 2009 Unaudited	3 months ending March 31, 2008 Unaudited	Year ending Dec. 31, 2008 Audited	Year ending Dec. 31, 2007 Audited	9 months ending Sept. 30, 2008 Unaudited	9 months ending Sept. 30, 2007 Unaudited	6 months ending June 30, 2008 Unaudited	6 months ending June 30, 2007 Unaudited
<b>Total Revenues</b>	100,231	427,297	4,597,576	270,841	2,979,023	267,707	2,565,026	267,707
<b>Income (Loss) from operations</b>	(872,999)	(193,362)	802,589	(2,602,310)	457,471	(1,683,971)	1,163,843	(977,555)
<b>Net Income (Loss) after unusual items and equity investments</b>	(780,219)	(193,362)	(3,759,152)	2,271,231	457,471	(1,728,571)	1,1031,565	(977,555)
<b>Total Assets</b>	28,909,726	20,513,383	29,430,079	20,411,042	31,627,550	11,146,887	21,900,104	11,568,261
<b>Long Term Liabilities</b>	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
<b>Shareholder Equity</b>	28,485,163	20,392,939	28,400,382	20,269,156	31,194,505	10,988,708	21,789,958	11,449,823
<b>Cash flow from Operations</b>	(1,401,405)	(469,572)	1,186,559	(1,925,762)	1,676,403	(1,258,499)	(350,781)	(827,620)
<b>Increase (decrease) in Cash</b>	225,236	506,160	63,528	(301,959)	1,058,440	(68,478)	632,283	185,833
<b>Net Income (Loss), on a per-share basis*</b>	(.05)	(.01)	(.24)	.19	.03	(.15)	.07	(.09)
<b>Net Income (Loss), on a per-share basis diluted*</b>	-	-	-	.15	.03	-	.06	-
<b>Weighted Average common shares</b>	16,101,321	12,846,411	15,324,378	12,062,669	14,474,193	11,201,270	13,590,216	10,843,032

\* 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 16,101,321 (2008 – 12,846,411) and fully diluted shares during the year of 19,487,412 (2008 – 15,791,866).

	For the period ended Mar. 31, 2009	For the year ended Dec. 31, 2008
Net income (loss) per common share	\$(.05)	\$ (.24)
Net income (loss) per common share fully diluted	-	-

Fully Diluted net loss per common share is not presented, for 2009 as the effect of common share options would be anti-dilutive.

## REVENUES

For the three months ended March 31, 2009 the Corporation had operating revenue of \$100,231 (2008 – \$427,297). Revenues arose primarily from engineering and process design projects in Europe and the United States.

## INTEREST & OTHER INCOME

The Corporation recorded bank interest earned on short and long term investments and other income for the period of \$47,605 (2008 - \$48,763).

## OPERATING EXPENSES

Commercialization, Product Development and Administrative expenses for the period were \$827,638 as compared to \$439,076 for the same period in the previous year. The increase in 2009 is primarily attributable to a higher level of activity in respect to the use of subcontract services and overall expansion of operations to meet increasing commercial demand for Process Engineering.

Research and Development expenses for the period were \$6,116 as compared to \$48,205 for the same period in the previous year. These expenditures and 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, as well as the completion of special funding requirements in the prior year and a change in emphasis toward the product development of the Purenergy CCS<sup>™</sup> CO<sub>2</sub> capture system and the Hydrogen Demonstration Project.

A significant portion of expenses, in the amount of \$177,950, 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 INCOME (LOSS)**

For the period ended March 31, 2009 the Corporation had a loss of \$872,999 from operations as compared to a loss of \$193,362 from operations for the same period of the prior year. Changes are attributable to the timing of revenue recognition on ongoing projects and the increase in salary expenses (additional engineering staff to resource up for upcoming projects), short term consulting and subcontractor expenditures necessary for investor relations and development of new collateral, and strategic project branding work.

## **INCOME FROM EQUITY INVESTMENTS**

Income from equity investments in respect to the 3 month period ending March 31, 2009 was \$92,780 after considering provision for tax and eliminating unrealized inter-corporate profits.

## **NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)**

Net loss for the period ending March 31, 2009 was \$780,219. This compares to a loss of \$193,362 in respect to the same period of the prior year. Increase in loss was due primarily to timing of revenue recognition on ongoing projects and increased other expenses as discussed above

## **TOTAL ASSETS**

Total assets were \$28,909,726 as at March 31, 2009, as compared to \$20,513,383 as at March 31, 2008. The increase in total assets is primarily due to the injection of funds from the sale of shares which was reinvested in the short term deposits and long term investments as well as the acquisition of 10,000 common shares of Global Energy Inc. at a (non-cash) price of \$2,017,260. These combined with amounts generated through operations result in a stronger overall asset position.

Included in total assets for 2009 are short term investments totalling \$8,871,106 in term deposits and accrued interest compared with \$4,006,762 in the previous year. Also included are \$358,055 relating to amounts receivable for government participants in the Hydrogen Demonstration Project as compared to \$230,706 as at December 31, 2008

## **CURRENT LIABILITIES**

Current liabilities were \$424,563 as at March 31, 2009, as compared to \$120,444 as at March 31, 2008. Increase is primarily due to timing of costs related to the Hydrogen Demonstration Project, a portion of which will be reimbursed through additional claims to the granting agencies as well as increased overall size of operations and the timing of related costs.

## **SHAREHOLDERS' EQUITY**

As at March 31, 2009 shareholders' equity was \$28,485,163 as compared to \$20,392,939 as at March 31, 2008. Changes are due primarily to additional capital raised during the previous year and the effect of current operations.

## **CASH FLOW**

Cash flows from operating activities were \$(1,401,405) for the period, compared to (\$469,572) for the same period ended March 31, 2008. The increased use of funds is a direct result of increased commercialization efforts and revenues derived in the period as well as a significant reduction (\$605,134) in account payable amounts at December 31, 2008.

## **CHANGE IN CASH POSITION**

Changes in Cash position between March 31, 2009 and 2008 are largely attributable to funds generated through the issuance of shares as well as the ongoing commercialization of HTC CO<sub>2</sub> Product Offer.

## **LIQUIDITY**

The Corporation is not facing any liquidity issues and has funds available to meet expected requirements. 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**

In July 18, 2005 the Corporation entered into a Sponsors' Agreement with the University of Regina, in terms whereof the ITC provided 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.

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 sponsored 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 supplied personal services of a research scientist, Thermochem made quarterly payments for consumables and equipment of approximately \$8,500 and BTC made 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. Management has informed the University of Regina of its desire to continue its ongoing research and is negotiating to extend arrangements to June 2011.

The Corporation received the funding approval from the Government of Saskatchewan (\$1.4 million) and from Sustainable Development Technology Canada (\$1.09 million), for the financing of a new Hydrogen Demonstration Plant to be set up at the ITC, initially estimated at \$3.7 million. HTC, together with other consortium partners, will be responsible for the balance of the \$3.7 million in funding through cash and/or contributions of services or other in-kind contributions, as outlined in the applications. HTC's portion, based on the initial funding requirements, is currently estimated at approximately \$663,000 and will be incurred over the

duration of the project. A comprehensive FEED Study has recently been completed, that will allow for more technical and financial certainty as to the size of the facility location, structural requirements, the potential for other modifications to the project scope and to the initial plan and estimate.

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 shall be paid monthly on the 1<sup>st</sup> day of each and every month. In addition the Corporation is required to make monthly instalment payments of \$6,555 on account for their share of occupancy costs (adjusted annually).

## CAPITAL RESOURCES

### Share Capital

Authorized:

An unlimited number of common shares.

An unlimited number of preferred shares.

	As at Mar. 31, 2009		As at Dec. 31, 2008	
	Number	Amount	Number	Amount
Common Shares				
Balance, Beginning of year	17,429,451	\$35,266,918	\$14,343,122	\$23,376,540
Issued under exercise of warrants	-	-	115,079	345,237
Issued under private placement	-	-	30,000	144,000
Issued under private placement	-	-	2,500,000	9,636,141
Issued under private placement	-	-	78,750	315,000
Issued under private placement	-	-	362,500	1,450,000
Issued to acquire Carbon Rx (see note 3)	346,000	865,000	-	-
Balance, end of period	17,775,451	\$36,131,918	\$17,429,451	\$35,266,918

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. On April 28 and May 2, 2008, 9,364 warrants were exercised at a price of \$3.00 per common share resulting in gross proceeds of \$28,092 for total proceeds of \$345,237 for 115,079 common shares.

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

On September 10, 2008, the Corporation issued 2,500,000 common shares at \$4.00 per common share, for gross proceeds of \$10,000,000 (net proceeds after costs \$9,636,141.00). The common shares issued are subject to a hold period under applicable securities law until January 11, 2009.

On September 22, 2008, the Corporation issued 78,750 common shares at \$4.00 per common share, for gross proceeds of \$315,000.00. The common shares issued were subject to a hold period under applicable securities law until January 23, 2009.

On November 12, 2008 the Corporation issued 362,500 shares at a value of \$4.00 per share in connection with the investment in Kingsteel Inc. The common shares issued were subject to a hold period under applicable securities law until March 13, 2009.

The Corporation considers its shareholders' equity as its Capital. There are no restrictions or requirements imposed on Capital. The Corporation is diligent in protecting its capital base, and it continues to maintain control over expenditures. There is sufficient capital to sustain operations for several years. The Corporation remains active in its pursuit of strategic equity capital.

### 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, 2008 through March 31, 2009 and the weighted average exercise price:

	2009		2008	
	Options	Avg. Price	Options	Avg. Price
Outstanding, and exercisable, beginning of year	3,386,091	\$3.20	3,096,885	\$2.93
Warrants Exercised	-	-	(115,079)	3.00
Expired and cancelled (ii,i)	-	-	(45,715)	3.00
Warrants granted (ii)	-	-	-	-
Extended under different terms (ii)	-	-	-	-
Extended Terms (ii)	-	-	-	-
Warrants granted (iii)	-	-	-	-
Stock options (iv)	-	-	450,000	5.00
Outstanding and exercisable, End of period	3,386,091	\$3.20	3,386,091	\$3.20

- i. 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.

- ii. On October 12, 2007, 2,727,273 units (“Units”) were issued at a price of \$2.20. Each Unit comprised one common share and one common share purchase warrant, with each common share purchase warrant entitling the holder to acquire one common share at a price of \$3.00 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 (“Acceleration”). During the second quarter period 9,364 warrants were exercised.
- iii. Jacob & Company Securities Inc. received 218,182 broker warrants (representing 8% of the Units issued under the Offering) which entitles the holder to acquire one HTC Unit for \$2.20 at any time until April 12, 2009.
- iv. On November 24, 2008, the Corporation granted 450,000 stock options (“Stock Options”) to two directors, one officer and one consultant at a price of \$5.00 per common share. Under the stock option agreements (“Agreements”), 40% of the Stock Options granted will vest at November 25, 2010, with the remainder to vest, in equal parts, over 36 months from November 25, 2010. The Stock Options will expire on 24 November 2013 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 disinterested members of the board of directors of HTC, and the TSX Venture Exchange Inc..

## **OFF-BALANCE SHEET ARRANGEMENTS**

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

## **PROPOSED AND SUBSEQUENT TRANSACTIONS**

On April 12, 2009 the Corporation extended the broker warrants issued on October 12, 2007 (“**Broker Warrants**”), which Broker Warrants would have expired on April 12, 2009. Each Broker Warrant now entitles the holder to acquire one Unit for \$2.20 at anytime until October 12, 2009. Each Unit consists of one Common Share and one Warrant, with each Warrant entitling the holder to purchase one additional Common Share at a price of \$3.00 per Common Share until October 12, 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 are subject to a hold period under Securities Laws until September 9, 2009.

On May 22, 2009 the Corporation announced that, conditional upon TSX Venture Exchange approval, the Corporation will extend the term of the Warrants issued under the Offering to expire on October 12, 2010 and amend the Warrant terms by deleting the Acceleration clause.

## **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:

	<b>Thermo-chem</b>	<b>BTC</b>	<b>Performance CO<sub>2</sub></b>	<b>HTC International Inc.</b>	<b>EESTech Tech. Pty Ltd, (formerly CO<sub>2</sub> Tech. Pty Ltd)</b>	<b>Carbon Rx Inc.</b>
Acquisition date	December 23, 2004	December 20, 2006	February 28, 2007	September 14, 2007	December 4, 2008	March 9, 2009
Share valuation date	June 24, 2004	August 22, 2006	February 28, 2007	Agreed price	December 4, 2008	March 9, 2009
Price per share (\$ (approximate))	4.30	1.36	2.63	2.23	0.12	2.50
Number of shares	2,313,568	591,500	190,000	40,123	10,000,000	346,000
Purchase price	\$ 9,948,342	\$803,595	\$499,700	\$89,474	\$1,254,000	\$865,000
Acquisitions costs	59,021					
Costs of Acquisition						
Current Assets	\$ 799,680	\$ 192,017	\$100	\$4,199	-	-
Property Plant & equipment	5,403	-	-	-	-	-
Intangible Assets	5,850,000	574,943	499,600	-	\$1,254,000	\$865,000
Goodwill	3,365,099	100,000	-	132,278	-	-
Current Liabilities	(12,819)	(63,365)	-	(47,003)	-	-
	<u>\$10,007,363</u>	<u>\$803,595</u>	<u>\$499,700</u>	<u>\$89,474</u>	<u>\$1,254,000</u>	<u>\$865,000</u>

HTC International Inc. operations have reduced activity, while HTC pursues its subsidiary's objectives in Asia Pacific through alternative agreements and alliances. In view of this, Goodwill associated with the acquisition of the remaining 49% of HTC International Inc. has been adjusted.

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.

	<b>Mar. 31, 2009</b>	<b>Dec. 31, 2008</b>
Goodwill	\$3,465,099	\$3,597,377
Goodwill value adjustment	<u>-</u>	<u>(132,278)</u>
	3,465,099	3,465,099
Intangible Assets not subject to amortization (Plans, Designs, Agreements and Name Branding)	3,699,159	2,834,159
Intangible Assets subject to amortization (Contractual)	5,344,504	5,344,504
Amortization of Intangible Assets	<u>(2,797,012)</u>	<u>(2,620,346)</u>
	<u>\$9,711,750</u>	<u>\$9,023,416</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 except as previously noted.

On October 10, 2008, the Corporation acquired a 45% equity investment in Kingsteel Inc. for consideration of \$4,500,000 plus associated costs of \$13,204. The Corporation accounts for this transaction using the equity method whereby gains since acquisition are recorded in the income statement under the caption "Income from Equity Investments" and the corresponding change is reflected in the recorded value of the investment:

	<b>Mar. 31, 2009</b>	<b>Dec. 31, 2008</b>
Investment at cost	\$4,668,663	4,513,204
Equity increase since acquisition	<u>96,680</u>	<u>155,459</u>
	<u>\$4,765,343</u>	<u>4,668,663</u>

## **CHANGE IN ACCOUNTING PRINCIPLES**

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

## **FUTURE CHANGES IN ACCOUNTING PRINCIPLES**

### **International Financial Reporting Standards ("IFRS")**

The Accounting Standards Board 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 assess the potential impacts of the transition to IFRS and is developing a plan to ensure compliance with the new standards. The Corporation is currently assessing the financial statement impact of the differences in accounting

standards. HTC also expects to implement changes to certain processes and systems in order to comply with IFRS.

## **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 Inc. are classified as loans receivable, fair value being approximated by the carrying amount. There are no unrealized gains or loss recorded on these financial instruments.

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 remain recorded at cost and have not been adjusted to their fair value as at March 31, 2009 as fair value is not practically determinable.

The investment in Global Energy Inc. is classified as available for sale. As it is a US private company they remain recorded at cost and have not been adjusted to their fair value as at March 31, 2009 as fair value is not practically determinable.

The Kingsteel Inc. investment represents 45% of the issued shares and is recorded using the equity method. The investment has been classified as available for sale.

### **Financial Risk Management**

The Corporation's primary exposures are to foreign exchange fluctuations, interest rate and credit risk.

Foreign exchange risk is primarily associated with contracts for services and contracts of supplies and services. The Corporation attempts to reduce this exposure through contractual arrangements and by dealing in US dollars internationally whenever possible for both contracts and services as there is less volatility then with Canadian funds.

Interest rate risk primarily is associated with interest fluctuations earned on the Corporations cash and term deposits. The Corporation mitigates exposure by attempting to match rates and terms to expected cash requirements.

Credit risk is the risk of financial loss if a counterpart 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 a number of Canadian Chartered Banks and taking advantage of government guarantees. The corporation attempts to reduce its loss to amounts receivable by assessing the ability of the counterparts 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 not yet incurred any research costs that meet the criteria for capitalization. The Corporation has commenced capitalization of development costs relating to the CCS Purenergy™ CO<sub>2</sub> carbon capture system. Costs accumulated to date are \$259,906. The Corporation also started capitalizing the costs of a Mixed Amine Solvent Reclaimer. Costs accumulated to date are \$116,605.

Expensed Research and Development Costs and Commercialization, Product Development General and Administration Expenses are included in the March 31, 2009 Unaudited Financial Statements. Total accumulated Research and Development costs expensed from December 23, 2004 to March 31, 2009 were \$1,273,666. 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.

## **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**  
**SR. VICE- PRESIDENT & 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 period ended March 31, 2009 and 2008, 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.

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, 2009 contained in this report. 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 period 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 quarterly filing.

Signed "Lionel Kambeitz"

**LIONEL KAMBEITZ**  
**CHAIRMAN & CEO**

Signed "Jeffrey Allison"

**JEFFREY ALLISON**  
**SR. VICE-PRESIDENT & 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, 2009 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 29, 2009

**HTC PUREENERGY INC.**

**Consolidated Balance Sheets**  
(In Canadian dollars)

Period ended March 31, 2009 and Year ended December 31, 2008	Mar. 31/09 (Unaudited) \$	Dec. 31/08 (Audited) \$
<b>ASSETS</b>		
Current Assets:		
Cash	400,288	175,052
Short Term Deposits	8,871,106	10,632,601
Accounts Receivable	1,269,449	1,258,197
Hydrogen Demo Project Receivable	358,055	230,706
Prepaid expense	395,012	423,260
	11,293,910	12,719,816
Property, plant and equipment (note 4)	115,735	80,871
Product Development (note 5)	376,511	289,553
Long-term investments (note 6)	7,342,254	7,245,572
Patents (note 7)	69,566	70,851
Goodwill and intangibles (note 3)	9,711,750	9,023,416
	28,909,726	29,430,079
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	424,563	1,029,697
Shareholders' Equity:		
Share capital (note 8)	36,131,918	35,266,918
Deficit	(7,646,755)	(6,866,536)
	28,485,163	28,400,382
	28,909,726	29,430,079

Commitments (note 16)

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>2009</b>	<b>2008</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>\$</b>	<b>\$</b>
Revenue:		
Engineering & Process Design	100,231	427,297
	100,231	427,297
Expenses:		
Commercialization, product development and Administration	827,638	439,076
Research and development	6,116	48,205
Amortization	187,081	182,780
	1,020,835	670,061
Income (Loss) from commercial operations	(920,604)	(242,764)
Other income:		
Gain on sale of assets	-	639
Interest and other income	47,605	48,763
	47,605	49,402
Income (Loss) from operations	(872,999)	(193,362)
Income (Loss) for the Period	(872,999)	(193,362)
Income from Equity Investments (note 6) (net of tax)	92,780	-
Net Income (Loss)	(780,219)	(193,362)
Other Comprehensive Income	-	-
Comprehensive Income (Loss)	(780,219)	(193,362)
Deficit – Beginning of Period	(6,866,536)	(3,107,384)
Deficit – End of Period	(7,646,755)	(3,330,746)

See accompanying notes to Consolidated Financial Statements

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

<b>For the three month period ended March 31,</b>	<b>2009</b>	<b>2008</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>\$</b>	<b>\$</b>
<b>Cash Flows from Operating Activities:</b>		
Net Income (loss)	(780,219)	(193,362)
Items not affecting cash:		
Amortization	187,081	182,780
Income from Equity Investment	(92,780)	-
Gain on sale of assets		(639)
Change in working capital other than cash	(715,487)	(458,351)
	<b>(1,401,405)</b>	<b>(469,572)</b>
<b>Cash flows from investing activities:</b>		
Decrease (Increase) in short-term deposits	1,761,495	693,238
Decrease (Increase) on long-term investments	-	8,243
Purchase of equipment	(44,000)	(20,834)
Capitalized development	(90,854)	(22,060)
	<b>1,626,641</b>	<b>658,587</b>
<b>Cash flows from financing activities:</b>		
Cash from issuance of share capital	-	317,145
Increase (Decrease) in cash	225,236	506,160
Cash and cash equivalents–Beginning of Period	175,052	111,524
Cash and Cash equivalents – End of Period	400,288	617,684

See Accompanying notes to Consolidated Financial Statements

**HTC PUREENERGY INC.**

**Notes to Consolidated Financial Statements**  
**Period ended March 31, 2009 and Year ended December 31, 2008**

**1. 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 whose commercial business is the development, aggregation and commercialization of proprietary technologies relating to CO<sub>2</sub> capture and storage as well as H<sub>2</sub> production utilizing CO<sub>2</sub>.

**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”), Performance CO<sub>2</sub> Integration Inc. (“Performance”), EESTech CO<sub>2</sub> Technologies Pty. Ltd. (CO<sub>2</sub>) and Carbon Rx Inc. (Carbon Rx). The Corporation has accounted for the subsidiaries using the purchase method of accounting.

**Significant Influence Investments**

The Corporation utilizes the equity method of accounting for investments where the Corporation has significant influence. The 45% equity investment in 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 investments 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 (CO<sub>2</sub> Technologies Pty. Ltd., a wholly owned subsidiary until November 29, 2007 and re-acquired in December 2008). 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.

## Period ended March 31, 2009 and Year ended December 31, 2008

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

#### Short term deposits

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

#### 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

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 and HTC's Mixed Amine Solvent Reclaimer 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, 2009 and Year ended December 31, 2008**

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

#### **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 employee 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 are stock options to purchase shares that have been issued to directors, an officer and a consultant of the Corporation, but as yet have not been exercised.

#### **Revenue Recognition**

Revenue is recognized when on substantial completion of transactions and when transfer is effected to the contracting party, obligations discharged, the amount is determinable, and collectability is reasonably assured.

Revenue for projects is recognized as funds are received and earned or as amounts become receivable in accordance with the terms of the contractual arrangements.

Revenue from Engineering and Process Design Services is recognized as predetermined milestones are achieved or in accordance with the terms of contractual arrangements.

#### **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).

## **HTC PUREENERGY INC.**

### **Notes to Consolidated Financial Statements**

**Period ended March 31, 2009 and Year ended December 31, 2008**

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

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.

### **Goodwill and Intangible Assets**

Effective January 1, 2009, HTC adopted the new Canadian standard, Handbook Section 3064, Goodwill and Intangible Assets, which replaces Handbook Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. The standard introduces guidance for the recognition, measurement and disclosure of goodwill and intangible assets, including internally generated intangible assets. The standard also harmonizes Canadian standards with International Financial Reporting Standards.

### **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 assess the potential impacts of the transition to IFRS and is developing its plan to ensure compliance with the new standards. The Corporation is currently assessing the financial statement impact of the differences in accounting standards. HTC also expects to implement changes to certain processes and systems in order to comply with IFRS.

# HTC PUREENERGY INC.

## Notes to Consolidated Financial Statements

Period ended March 31, 2009 and Year ended December 31, 2008

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

	Thermo-chem	BTC	Performance CO <sub>2</sub>	HTC International Inc.	EESTech Tech. Pty Ltd, (formerly CO <sub>2</sub> Tech. Pty Ltd)	Carbon Rx Inc.
Acquisition date	December 23, 2004	December 20, 2006	February 28, 2007	September 14, 2007	December 4, 2008	March 10, 2009
Share valuation date	June 24, 2004	August 22, 2006	February 28, 2007	Agreed price	December 4, 2008	March 9, 2009
Price per share (\$ (approximate))	4.30	1.36	2.63	2.23	0.12	2.50
Number of shares	2,313,568	591,500	190,000	40,123	10,000,000	346,000
Purchase price	\$ 9,948,342	\$803,595	\$499,700	\$89,474	\$1,254,000	\$865,000
Acquisitions costs	59,021					
Costs of Acquisition						
Current Assets	\$ 799,680	\$ 192,017	\$100	\$4,199	-	-
Property Plant & equipment	5,403	-	-	-	-	-
Intangible Assets	5,850,000	574,943	499,600	-	\$1,254,000	865,000
Goodwill	3,365,099	100,000	-	132,278	-	-
Current Liabilities	(12,819)	(63,365)	-	(47,003)	-	-
	<u>\$10,007,363</u>	<u>\$803,595</u>	<u>\$499,700</u>	<u>\$89,474</u>	<u>\$1,254,000</u>	<u>\$865,000</u>

HTC International Inc. operations have reduced activity, while HTC pursues its subsidiary's objectives in Asia Pacific through alternative agreements and alliances. In view of this, Goodwill associated with the acquisition of the remaining 49% of HTC International Inc. has been adjusted.

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,

# HTC PUREENERGY INC.

## Notes to Consolidated Financial Statements

Period ended March 31, 2009 and Year ended December 31, 2008

### 3. Business acquisition (continued):

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.

	Mar. 31, 2009	Dec. 31, 2008
Goodwill	\$3,465,099	\$3,597,377
Goodwill value adjustment	0	(132,278)
	3,465,099	3,465,099
Intangible Assets not subject to amortization (Plans, Designs, Agreements and Name Branding)	3,699,159	2,834,159
Intangible Assets subject to amortization (Contractual)	5,344,504	5,344,504
Amortization of Intangible Assets	(2,797,012)	(2,620,346)
	\$9,711,750	\$9,023,416

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 except as disclosed above.

### 4. Property, plant and equipment:

As at March 31, 2009		Accumulated	Net Book
	Cost	Amortization	Value
Equipment	\$317,360	\$258,794	\$58,566
Leasehold improvements	16,174	12,577	3,597
Vehicles	73,565	19,993	53,572
	\$407,099	\$291,364	\$115,735

As at December 31, 2008		Accumulated	Net Book
	Cost	Amortization	Value
Equipment	\$317,360	\$254,170	\$63,190
Leasehold improvements	16,174	12,293	3,881
Vehicles	29,565	15,765	13,800
	\$363,099	\$282,228	\$80,871

# HTC PUREENERGY INC.

## Notes to Consolidated Financial Statements

Period ended March 31, 2009 and Year ended December 31, 2008

### 5. Product Development

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

	Mar. 31, 2009	Dec. 31, 2008
CCS Pureenergy™ 1000	\$259,906	\$256,280
HTC Mixed Amine Solvent Reclaimer	116,605	33,273
	<u>\$376,511</u>	<u>\$289,553</u>

### 6. Long term investments:

	Mar. 31, 2009	Dec. 31, 2008
Note receivable non-interest bearing recoverable in 56 monthly payments classified as loans receivable, fair value being approximated by the carrying amount, terms of payments are being negotiated.	\$43,462	\$43,462
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, The payments terms have been modified to require a minimum payment in respect to the year of \$15,000 the residual being due no later than April 1, 2016	202,657	202,657
Investment in 2,500,000 common shares of EESTech Inc. (see note below classified as available for sale).	313,530	313,530
Investment in 10,000 common shares of Global Energy Inc. Global Energy Inc. is a private US corporation. The investment has been recorded at cost and has been classified as available for sale.	2,017,260	2,017,260
Investment in Kingsteel Inc. represents 45% of the issued shares and is recorded using the equity method.	4,765,345	4,668,663
	<u>\$7,342,254</u>	<u>\$7,245,572</u>

# HTC PUREENERGY INC.

## Notes to Consolidated Financial Statements

Period ended March 31, 2009 and Year ended December 31, 2008

### 6. Long term investments (continued):

On December 4, 2008 HTC acquired 2,500,000 shares in EESTech Inc. in exchange for a limited licensing agreement for the use of HTC's CCS Technology. The Corporation accounts for its investment using the Cost Method. EESTech Inc.'s shares are considered available for sale. These shares are subject to Rule 144 of the US *Securities Act 1933* trading restrictions. Subsequently EESTech Inc. is no longer registered for trading.

On October 10, 2008 the Corporation acquired a 45% equity investment in Kingsteel Inc. for consideration of \$4,500,000 plus associated costs of \$13,204. The Corporation accounts for this transaction using the Equity Method whereby gain and losses since acquisition are recorded in the income statement under the caption "Income from Equity Investments" and the corresponding change is reflected in the recorded value of the investment:

	Mar. 31, 2009	Dec. 31, 2008
Investment	\$4,668,663	4,513,204
Equity increase since acquisition	96,680	155,459
	\$4,765,343	4,668,663

### 7. Patents:

Patents are comprised of:

	Mar. 31, 2009	Dec. 31, 2008
Patent applications costs	\$ 77,094	\$ 77,094
Amortization of patents	7,528	6,243
	\$69,566	\$70,851

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

# HTC PUREENERGY INC.

## Notes to Consolidated Financial Statements

Period ended March 31, 2009 and Year ended December 31, 2008

### 8. Share capital:

Authorized:

An unlimited number of common shares

An unlimited number of preferred shares

	As at Mar. 31, 2009		As at Dec. 31, 2008	
	Number	Amount	Number	Amount
Common Shares				
Balance,				
Beginning of year	17,429,451	\$35,266,918	\$14,343,122	\$23,376,540
Issued under exercise of stock options	-	-	115,079	345,237
Issued under private placement	-	-	30,000	144,000
Issued under private placement	-	-	2,500,000	9,636,141
Issued under private placement	-	-	78,750	315,000
Issued under private placement	-	-	362,500	1,450,000
Issued to acquire Carbon Rx Inc. (see note 3)	346,000	865,000	-	-
Balance, end of year	17,775,451	\$36,131,918	\$17,429,451	\$35,266,918

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 warrants expired on March 15, 2008. On April 28 and May 2, 2008, 9,364 warrants were exercised at a price of \$3.00 per common share resulting in gross proceeds of \$28,092 for total proceeds of \$345,237 for 115,079 common shares.

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

On September 10, 2008, the Corporation issued 2,500,000 common shares at \$4.00 per common share, for gross proceeds of \$10,000,000 (net proceeds after costs \$9,636,141). The common shares issued are subject to a hold period under applicable securities law until January 11, 2009.

On September 22, 2008, the Corporation issued 78,750 common shares at \$4.00 per common share, for gross proceeds of \$315,000.00. The common shares issued are subject to a hold period under applicable securities law until January 23, 2009.

# HTC PUREENERGY INC.

## Notes to Consolidated Financial Statements

Period ended March 31, 2009 and Year ended December 31, 2008

### 8. Share capital (continued):

On November 12, 2008, the Corporation issued 362,500 common shares at \$4.00 per share in connection with the October 10, 2008 acquisition of Kingsteel Inc. The common shares are subject to a hold period until March 13, 2009.

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 are subject to a hold period until July 11, 2009.

### 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.

The following table reflects the stock option and warrants activity from January 1, 2008 through March 31, 2009 and the weighted average exercise price:

	2009		2008	
	Options	Avg. Price	Options	Avg. Price
Outstanding, and exercisable, beginning of year	3,386,091	\$3.20	3,096,885	\$2.93
Warrants Exercised (i, ii)	-	-	(115,079)	3.00
Expired and cancelled (ii,i)	-	-	(45,715)	3.00
Warrants granted (ii)	-	-	-	-
Extended under different terms (ii)	-	-	-	-
Extended Terms (ii)	-	-	-	-
Warrants granted (iii)	-	-	-	-
Stock options (iv)	-	-	450,000	5.00
Outstanding and exercisable, End of period	3,386,091	\$3.20	3,386,091	\$3.20

- i. 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 2007, 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 2008, 105,715 warrants were exercised resulting in the issuance of 105,715 common shares and 45,715 warrants expired.

# HTC PUREENERGY INC.

## Notes to Consolidated Financial Statements

Period ended March 31, 2009 and Year ended December 31, 2008

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

- ii. On October 12, 2007, 2,727,273 units (“Units”) were issued, each unit comprising one common share and one common share purchase warrant (“Warrant”) to acquire an additional common share 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. During 2008, 9,364 Warrants were exercised.
- iii. Jacob & Company Securities Inc. received 218,182 broker warrants (“Broker Warrants”) (representing 8% of the Units issued under the Offering), with each broker warrant entitling the holder to acquire one Unit for \$2.20 at any time until April 12, 2009. The estimated stock based compensation cost associated with the issue of these broker warrants is not material and has not been recorded as contributed surplus with a corresponding adjustment to issuance costs in share capital.
- iv. On November 24, 2008, the Corporation granted 450,000 stock options at \$5.00 per share to two directors, one officer and one consultant. The stock options will expire on 24 November 2013 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 disinterested members of the board of directors of HTC and TSX Venture Exchange Inc.

### 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. There are no unrealized gains or loss recorded on these financial instruments.

### 11. Provision for income taxes:

The Corporation does not make adjustments for income tax on an interim basis. As at December 31, 2008 the Corporation’s tax position was as follows:

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, 2008 the Corporation had an anticipated balance of approximately \$293,662 of tax credits available to reduce future year taxes (expiring December 31, 2015 to 2028), 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.

# HTC PUREENERGY INC.

## Notes to Consolidated Financial Statements

Period ended March 31, 2009 and Year ended December 31, 2008

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

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, 2008 the Corporation has approximately \$1,629,322 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 \$2,719,955 of non-capital losses available at December 31, 2008 to reduce taxable income of future years. These losses expire in periods from 2008 to 2027. The Corporation also has capital losses of \$349,080 available to reduce future capital gains.

The Corporation has undepreciated capital cost claims in excess of net book value of approximately \$164,257 available to reduce future year's taxes. In addition, the Corporation has capitalized \$1,134,775 of share issuances costs which are deductible for tax purposes on straight-line basis over 5 years of which \$894,587 is available for future years.

### 12. 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 16,101,321 (2008 – 12,846,411 and fully diluted shares during the period 19,487,412 (2008 – 15,791,866).

	For the period ended Mar. 31, 2009	For the year ended Dec. 31, 2008
Net income (loss) per common share	\$ (.05)	\$ (.24)
Net income (loss) per common share Fully diluted	-	-

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

# HTC PUREENERGY INC.

## Notes to Consolidated Financial Statements

Period ended March 31, 2009 and Year ended December 31, 2008

### 13. Supplemental cash flow information:

	Mar. 31, 2009	Dec. 31, 2008
Cash interest paid during the period	\$ 872	\$ 1,272
Cash interest received during the period	47,605	222,549

### 14. Financial Risk Management:

The Corporation's primary exposures are to foreign exchange fluctuations, interest rate and credit risk.

Foreign exchange risk is primarily associated with contracts for services and contracts of supplies and services. The Corporation attempts to reduce this exposure through contractual arrangements and by dealing in US dollars internationally whenever possible for both contracts and services as there is less volatility than with Canadian funds.

Interest rate risk primarily is associated with interest fluctuations earned on the Corporations cash and term deposits. The corporation mitigates exposure by attempting to match rates and terms to expected cash requirements.

Credit risk is the risk of financial loss if a counterpart 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 to amounts receivable by assessing the ability of the counterparts 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.

### 15. Capital Disclosures:

The Corporation considers its shareholders equity as its Capital. There are no restrictions or requirements imposed on Capital. The corporation is diligent in protecting its capital base, and it continues to maintain control over expenditures while being in a development stage. While there is sufficient capital to sustain operations for several years, the Corporation remains active in its pursuit of new capital as well as the development of new licensing and new revenue sources.

# HTC PUREENERGY INC.

**Notes to Consolidated Financial Statements**  
**Period ended March 31, 2009 and Year ended December 31, 2008**

**16. 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<sup>th</sup>, 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.

The Corporation received the funding approval from the Government of Saskatchewan (\$1.4 million) and from Sustainable Development Technology Canada (\$1.09 million), for the financing of a new Hydrogen Demonstration Plant to be set up at the ITC, initially estimated at \$3.7 million. HTC, together with other consortium partners, will be responsible for the balance of the \$3.7 million in funding through cash and/or contributions of services or other in-kind contributions, as outlined in the applications. HTC's portion, based on the initial funding requirements, is currently estimated at approximately \$663,000 and will be incurred over the duration of the project.

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 shall be paid monthly on the 1st day of each and every month. In addition the Corporation is required to make monthly instalment payments of \$6,555 on account for their share of occupancy costs (adjusted annually). Minimum monthly lease payments over the next five years are \$550,020.

## **Period ended March 31, 2009 and Year ended December 31, 2008**

### **17. Subsequent Events:**

On April 12, 2009 the Corporation extended the term of the Broker Warrants issued on October 12, 2007 to expire on October 12, 2009. This extension was approved by the TSX Venture Exchange Inc.

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 are subject to a hold period under Securities Laws until September 9, 2009.

On May 22, 2009, subject to TSX Venture Exchange Inc. approval, the Corporation announced that it will also extend the term of the Warrants issued on October 12, 2007, to expire on October 12, 2010 and amend the Warrant terms by deleting the Acceleration clause.

## **Board of Directors & Senior Officers**

## of the Corporation as at March 31, 2009

<b>Directors:</b>	Lionel Kambeitz, Regina, Saskatchewan,  Jeffrey Allison, Regina, Saskatchewan,  Wayne Bernakevitch, Regina, Saskatchewan,  James Rybchuk, Regina, Saskatchewan,  Richard Dennis Surrey, United Kingdom
<b>Senior Officers:</b>	Lionel Kambeitz, Chairman and CEO Jeffrey Allison, Sr. Vice-President & CFO Thor McDonald, Vice-President
<b>Committees of the Board of Directors:</b>	Audit Committee Compensation Committee Nominating Committee
<b>Members of Audit Committee:</b>	James Rybchuk, Lionel Kambeitz and Wayne Bernakevitch
<b>Members of Compensation Committee:</b>	Jeffrey Allison and Wayne Bernakevitch
<b>Members of Nominating Committee:</b>	Jeffrey Allison and Wayne Bernakevitch

## Shareholder Information

**Stock exchange:** TSX Venture Exchange Inc.

**Stock symbol:** HTC

**Common Shares outstanding as of March 31, 2009:** 17,775,451

**Head office and Investor relations address:**

**HTC PUREENERGY**

Suite 150, 10 Research Drive  
Regina, Saskatchewan S4S 7J7  
Telephone: (306) 352-6132  
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Telephone: +61 4 1267 3215  
Fax: +61 2 9905 9891

**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

**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.