



**POWERTECH URANIUM CORP.**  
(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010

(Stated in United States Dollars)

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THE ACCOMPANYING INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009 HAVE NOT BEEN REVIEWED OR AUDITED BY THE COMPANY'S AUDITORS.

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**POWERTECH URANIUM CORP.**  
(An Exploration Stage Company)  
**CONSOLIDATED BALANCE SHEETS**  
March 31, 2010 and December 31, 2009  
(Stated in United States Dollars)

	<u>ASSETS</u>	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
Current			
Cash and cash equivalents		\$ 4,963,230	\$ 3,581,859
Receivables		3,212	35,979
Deposits		39,648	19,648
Prepaid expenses		<u>176,378</u>	<u>193,447</u>
		5,182,468	3,830,933
Restricted cash		557,992	557,882
Mineral properties – Note 2		41,432,099	40,186,113
Building and equipment – Note 3		<u>390,862</u>	<u>426,028</u>
		<u>\$ 47,563,421</u>	<u>\$45,000,956</u>
	<u>LIABILITIES</u>		
Current			
Accounts payable and accrued liabilities		\$ 497,745	\$ 576,303
Current portion of agreements payable – Note 7		<u>290,000</u>	<u>290,000</u>
		787,745	866,303
Long-term debt			
Agreements payable – Note 7		665,863	659,811
Loan Facility payable – Note 7		9,692,761	5,894,432
Convertible notes payable – Note 7		<u>7,633,678</u>	<u>7,052,160</u>
		<u>18,780,047</u>	<u>14,472,706</u>
	<u>SHAREHOLDERS' EQUITY</u>		
Share capital – Note 4		50,831,518	50,831,518
Contributed surplus – Note 4		6,770,822	6,726,716
Equity portion of convertible debt – Note 7		2,363,211	2,363,211
Equity portion of loan facility – Note 7		785,541	785,541
Accumulated other comprehensive loss		(5,004,102)	(5,004,102)
Deficit		<u>(26,963,616)</u>	<u>(25,174,634)</u>
		<u>28,783,374</u>	<u>30,528,250</u>
		<u>\$ 47,563,421</u>	<u>\$ 45,000,956</u>
Nature of Operations and Going Concern – Note 1			
Commitments and Contingencies – Note 2 and 8			

APPROVED BY THE DIRECTORS:

\_\_\_\_\_  
“Richard F. Clement, Jr.” Director  
Richard F. Clement, Jr.

\_\_\_\_\_  
“Thomas Doyle” Director  
Thomas Doyle

SEE ACCOMPANYING NOTES

**POWERTECH URANIUM CORP.**  
(An Exploration Stage Company)  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
for the three months ended March 31, 2010 and 2009  
(Stated in United States Dollars)

	<u>2010</u>	<u>2009</u>
General and administrative expenses		
Accretion – Note 7	\$ 353,346	\$ 109,097
Amortization and depreciation	35,166	55,241
Audit and accounting fees	13,083	68,752
Community and media relations	64,386	58,591
Director fees – Note 5	8,645	6,968
Filing fees	18,356	24,743
Foreign exchange (gain) loss	319,262	(434,330)
Insurance	22,688	28,032
Investor relations and promotion	22,043	53,510
Legal fees	23,248	54,359
Management and consulting fees – Note 5	137,805	130,822
Office and miscellaneous	133,548	149,521
Transfer agent fees	1,499	4,654
Travel and accommodation	73,448	83,360
Wages and benefits – Note 4	<u>293,840</u>	<u>261,704</u>
Loss before other	1,520,363	655,024
Other		
Interest income	(138)	(6,052)
Interest expense	<u>268,757</u>	<u>97,029</u>
Net loss for the period	1,788,982	746,001
Deficit, beginning of the period	25,174,634	20,040,108
Deficit, end of the period	<u>\$ 26,963,616</u>	<u>\$ 20,786,109</u>
Basic and diluted loss per share	<u>\$ 0.03</u>	<u>\$ 0.01</u>
Weighted average number of shares outstanding	<u>55,429,022</u>	<u>55,429,020</u>

SEE ACCOMPANYING NOTES

**POWERTECH URANIUM CORP.**  
 (An Exploration Stage Company)  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**AND ACCUMULATED OTHER COMPREHENSIVE LOSS**  
 for the three months ended March 31, 2010 and 2009  
 (Stated in United States Dollars)

	<u>2010</u>	<u>2009</u>
<u>Statements of Comprehensive Loss</u>		
Net loss for the period	\$ 1,788,982	\$ 746,001
Other comprehensive income		
Foreign exchange adjustment	—	6,065,611
Comprehensive loss (income)	<u>\$ 1,788,982</u>	<u>\$ 6,811,612</u>
 <u>Statements of Accumulated Other Comprehensive Loss</u>		
Balance, beginning of period	\$ 5,004,102	\$ (1,061,509)
Other comprehensive income	—	6,065,611
Balance, end of period	<u>\$ 5,004,102</u>	<u>\$ 5,004,102</u>

SEE ACCOMPANYING NOTES

**POWERTECH URANIUM CORP.**  
(An Exploration Stage Company)  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
for the three months ended March 31, 2010 and 2009  
(Stated in United States Dollars)

	<u>2010</u>	<u>2009</u>
Operating Activities		
Net loss for the year	\$ (1,788,982)	\$ (746,001)
Items not affecting cash:		
Accretion	353,346	109,097
Depreciation and amortization	35,166	55,241
Unrealized foreign exchange loss (gain)	292,966	(221,802)
Stock based compensation	<u>—</u>	<u>16,511</u>
	(1,107,504)	(786,954)
Net change in non-cash working capital balances:		
Receivables	33,430	(30,012)
Deposits	(20,000)	38,172
Prepaid expenses	18,451	29,907
Accounts payable and accrued liabilities	<u>336,071</u>	<u>400,697</u>
Cash used in operations	<u>(739,552)</u>	<u>(348,190)</u>
Investing Activities		
Restricted cash	(109)	290,704
Mineral property interests	(1,618,393)	(2,352,969)
Building and equipment	<u>—</u>	<u>(23,829)</u>
Cash used in investing activities	<u>(1,618,502)</u>	<u>(2,086,094)</u>
Financing Activities		
Long-term debt issuances	3,367,870	5,088,674
Long-term debt repayment	(10,000)	(10,000)
Long-term debt interest accrual	<u>268,757</u>	<u>66,332</u>
Cash provided by financing activities	<u>3,626,627</u>	<u>5,145,006</u>
Foreign exchange (loss) gain on cash	112,798	(83,293)
Increase in cash during the period	1,381,371	2,627,429
Cash and cash equivalents, beginning of the period	<u>3,581,859</u>	<u>3,097,132</u>
Cash and cash equivalents, end of the period	<u>\$ 4,963,230</u>	<u>\$ 5,724,561</u>
Cash and cash equivalents consists of:		
Cash	\$ 4,963,230	\$ 120,053
Term deposits	<u>—</u>	<u>5,604,508</u>
	<u>\$ 4,963,230</u>	<u>\$ 5,724,561</u>
Supplementary disclosure of cash flow information		
Interest paid	\$ —	\$ 23,561
Taxes paid	\$ —	\$ —
Non-cash Transactions – Note 6		

SEE ACCOMPANYING NOTES

**POWERTECH URANIUM CORP.**  
 (An Exploration Stage Company)  
**CONSOLIDATED SCHEDULE OF MINERAL PROPERTIES**  
 for the periods ended March 31, 2010 and December 31, 2009  
 (Stated in United States Dollars)

	<u>South Dakota</u>	<u>Wyoming</u>	<u>Colorado</u>	<u>Other</u>	<u>Total</u>
Balance, March 31, 2009	19,360,819	3,078,580	11,943,067	205,349	34,587,815
Acquisition – Note 2	–	–	1,732,000	–	1,732,000
Land services	18,098	855	58,892	–	77,845
Legal fees	98,983	–	260,000	–	358,983
Claims maintenance	77,978	165,030	–	–	243,008
Lease payments	158,482	69,345	101,884	–	329,711
Drilling/ Engineering	238,138	–	565,082	–	803,220
Exploration	3,061	2,278	3,111	–	8,450
Feasibility study	47,844	–	68,599	–	116,443
Permitting	418,442	–	295,183	–	713,625
Wages/consulting – Note 6	<u>638,885</u>	<u>–</u>	<u>576,128</u>	<u>–</u>	<u>1,215,013</u>
Balance, December 31, 2009	\$21,060,730	\$3,316,088	\$15,603,946	\$ 205,349	\$ 40,186,113
Land services	11,716	–	11,570	–	23,286
Legal fees	67,770	–	48,974	–	116,744
Lease payments	5,160	2,442	50,000	–	57,602
Drilling/ Engineering	7,341	–	78,122	–	85,463
Permitting	228,777	–	110,629	–	339,406
Feasibility study	105,324	–	166,589	–	271,913
Wages/Consulting – Note 6	<u>238,108</u>	<u>–</u>	<u>113,464</u>	<u>–</u>	<u>351,572</u>
Balance, March 31, 2010	<u>\$ 21,724,926</u>	<u>\$3,318,530</u>	<u>\$16,183,294</u>	<u>\$ 205,349</u>	<u>\$ 41,432,099</u>

SEE ACOMPANYING NOTES

**POWERTECH URANIUM CORP.**  
(An Exploration Stage Company)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2010 and 2009

Note 1 Nature of Operations

Powertech Uranium Corp. (the “Company”) was incorporated in British Columbia on February 10, 1984. The Company’s shares are publicly traded on the Toronto Stock Exchange (“TSX”) and the Frankfurt Stock Exchange. The Company’s business is the exploration and development of uranium properties principally located in South Dakota, Wyoming, and Colorado, USA.

The Company is in the process of exploring its properties and has not yet determined whether these properties contain reserves that are economically recoverable. The success of the Company and the recoverability of the amount shown for mineral properties are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration and development of the reserves, and upon future profitable production or proceeds from disposition of the properties. The Company’s success is subject to a number of risks including environmental risks, contractual risks, legal and political risks, fluctuations in the price of minerals and other factors beyond the Company’s control.

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and these consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At March 31, 2010, the Company had not yet achieved profitable operations, had a deficit of \$26,963,616 and working capital of \$4,394,723 which may not be sufficient to sustain operations over the foreseeable future and expects to incur further losses in the development of its business, all of which casts doubt about the Company’s ability to continue as a going concern. The Company’s ability to continue as a going concern is dependent upon its ability to raise the necessary fund to permit and develop its mineral properties and achieve future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due.

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles. References to “CAD\$” refer to Canadian currency and “\$” to United States currency.

Note 2 Mineral Properties

During June 2009, the Company entered into two option agreements for the purchase of an aggregate of 3,585 acres of land, together with the associated water, mineral and lease interests, within the Centennial Project in Weld County, Colorado for \$11,450,000. The optioned properties are adjacent to the existing northern portion of the Company's Centennial Project. The properties help to consolidate the Company's land position within the planned project boundary and add additional uranium mineral resources to the project.

For the exclusive rights of these options, the Company paid \$197,000 during the three month period ended June 30, 2009. The Company may at its option pay the remaining balance over a 12 and 24 month period. Such option payments, if elected, are due in July 2009, June 2010 and June 2011. During July 2009, the Company made its July 2009 option payment in the amount of \$1,530,000.

Any option payment made is non-refundable to the Company in the event the Company does not elect to exercise its option to complete the purchase. However, if the Company elects to exercise its

Note 2 Mineral Properties – (cont'd)

option to complete the purchase, the option payments will be applied against the purchase price and the remaining balance shall be paid at closing.

Powertech's gross mineral rights at the Centennial Project, including the optioned properties, have now increased from approximately 7,300 acres to approximately 9,500 acres, while its surface use acreage has nearly doubled, from approximately 3,600 acres to approximately 7,200 acres. In addition to increasing the Company's overall resource base for the project, the valuable addition of surface rights provides the Company access to its existing privately-owned minerals, and enables it to complete mine planning and supporting operational facility design.

Note 3 Building and Equipment

	<u>At March 31, 2010</u>			<u>At December 31, 2009</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Building	\$ 92,628	\$ 2,666	\$ 89,962	\$ 92,628	\$ 2,087	\$ 90,541
Computer equipment	239,045	121,785	117,260	239,045	108,467	130,578
Field equipment	235,136	123,595	111,541	235,136	111,201	123,935
Office equipment	70,977	41,437	29,540	70,977	38,047	32,930
Vehicles	<u>169,718</u>	<u>127,159</u>	<u>42,559</u>	<u>169,718</u>	<u>121,674</u>	<u>48,044</u>
	<u>\$ 807,504</u>	<u>\$ 416,642</u>	<u>\$ 390,862</u>	<u>\$ 807,504</u>	<u>\$ 381,476</u>	<u>\$ 426,028</u>

Note 4 Share Capital and Contributed Surplus

**Authorized:**

Unlimited number of common shares without par value

Unlimited number of preferred shares without par value

**Common Shares Issued:**

	<u>Number</u>	<u>Amount</u>	<u>Contributed Surplus</u>
Balance, December 31, 2009	55,429,022	\$ 50,831,518	\$ 6,726,716
Stock-based compensation	<u>—</u>	<u>—</u>	<u>44,106</u>
Balance, March 31, 2010	<u>55,429,022</u>	<u>\$ 50,831,518</u>	<u>\$ 6,770,822</u>

**Share Purchase Warrants:**

At March 31, 2010, there were 6,000,000 share purchase warrants outstanding. Share purchase warrants entitled the holders thereof to purchase one common share for each warrant. Changes in share purchase warrants for the three months ended March 31, 2010 are as follows:

<u>Expiration Date</u>	<u>Exercise Price (CAD)</u>	<u>Outstanding at December 31, 2009</u>	<u>Issued during the period</u>	<u>Expired during the period</u>	<u>Outstanding at March 31, 2010</u>
June 4, 2010	<u>\$2.00</u>	<u>6,000,000</u>	<u>—</u>	<u>—</u>	<u>6,000,000</u>
Totals		<u>6,000,000</u>	<u>—</u>	<u>—</u>	<u>6,000,000</u>

Note 4 Share Capital and Contributed Surplus – (cont'd)

**Stock Option Plan:**

The Company has a Stock Option Plan (“the Plan”) under which it is authorized to grant share purchase options to directors, officers, consultants or employees of the Company. The Company is permitted to grant options under the Plan to a fixed number of 9,885,804 common shares which is equal to 20% of the issued and outstanding common shares at the date of Plan adoption. The exercise price of options granted under the Plan may not be less than the fair market value of the Company’s common shares at the date the options are granted. Options granted under the Plan have a maximum life of five years. The Board of Directors specifies a vesting period on a grant-by-grant basis. All options are granted at exercise prices which are at or above the traded share price on grant date.

At March 31, 2010, there are 7,500,000 options outstanding entitling the holders thereof to purchase one common share for each option held. Changes in share options are as follows:

<u>Expiration Date</u>	<u>Exercise Price (CAD)</u>	<u>Outstanding at December 31, 2009</u>	<u>Granted during period</u>	<u>Exercised during period</u>	<u>Forfeited during period</u>	<u>Outstanding at March 31, 2010</u>
May 11, 2011	\$1.00	3,025,000	–	–	–	3,025,000
July 19, 2011	\$1.30	200,000	–	–	–	200,000
August 1, 2011	\$1.30	100,000	–	–	–	100,000
February 15, 2012	\$3.00	400,000	–	–	–	400,000
May 14, 2012	\$3.20	125,000	–	–	–	125,000
August 30, 2012	\$1.50	900,000	–	–	–	900,000
September 4, 2012	\$1.60	150,000	–	–	–	150,000
October 31, 2012	\$2.15	75,000	–	–	–	75,000
January 14, 2013	\$1.50	400,000	–	–	–	400,000
February 7, 2013	\$1.00	400,000	–	–	–	400,000
June 18, 2013	\$1.50	1,600,000	–	–	–	1,600,000
August 11, 2013	\$1.50	125,000	–	–	–	125,000
Totals		<u>7,500,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>7,500,000</u>

As of March 31, 2010, 7,403,750 options have vested and are exercisable. The weighted average life of the stock options outstanding is 2.05 years. The weighted average exercise price of the stock options outstanding is CAD\$1.38.

**Stock-based Compensation:**

During the three months ended March 31, 2010 stock-based compensation was \$44,106 (2009: \$82,727) of which \$Nil (2009: \$16,511) was included in wages and benefits and \$44,106 (2009: \$66,216) was included in mineral property costs under wages/consulting.

**Loan Facility:**

As of March 31, 2010, the Company had drawn down CAD\$10,350,000 of the principal amount of CAD\$13,800,000 of the Loan Facility. The principal amount of the second tranche, being CAD\$3,450,000, is convertible into common shares of the Company at a conversion price of CAD\$0.50 per common share. Assuming full conversion of the CAD\$3,450,000 principal of the second tranche of the Loan Facility, Société Belge de Combustibles Nucléaires Synatom SA (“Synatom”) will acquire 6,900,000 common shares of the Company. The terms of the Loan Facility are discussed in Note 8.

Note 5 Related Party Transactions

In addition to the financing arrangements with Synatom, as discussed in Notes 4 and 7, the Company entered into the following transactions with directors and officers of the Company or with companies with directors and officers in common:

	<b>March 31,</b>	
	<u>2010</u>	<u>2009</u>
Director fees	\$ 8,645	\$ 6,968
Management and consulting fees	94,596	88,994
	<u>\$ 103,241</u>	<u>\$ 95,962</u>

These related party transactions are measured by the exchange value, which represents the amount of consideration established and agreed to by the transacting parties.

Not included in the directors fees and management and consulting fees was stock based compensation expense \$ Nil (2009: \$16,511).

As of March 31, 2010, the Company had prepaid \$31,788 of management and consulting fees related to April 2010 services. Of this amount, \$10,000 was capitalized to resource properties.

As of March 31, 2010, the Company had advanced \$40,000 (2009 - \$40,000) for travel to one of the directors of the Company.

Note 6 Non-cash Transactions

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows. The following transactions are excluded from the statements of cash flows:

For the three months ended March 31, 2010 and 2009:

- (a) Included in mineral properties cost is stock-based compensation valued at \$44,106 (2008: \$66,216) relating to employees who are directly involved with the mineral properties.
- (b) Included in accounts payable and accrued liabilities is approximately \$416,000 (2009: \$1,159,000) relating to mineral properties.

Note 7      Long-term Debt

<b>Agreements payable</b>	<b>March 31, 2010</b>	<b>December 31, 2009</b>
	<hr/>	<hr/>
Agreement payable of \$100,000, payable in annual installments of \$10,000 of which \$40,000 (December 31, 2009: \$30,000) has been paid. The loan does not bear interest and is secured by a first mortgage on a mineral property interest. In the event of default the lender has the option to obtain the mineral property interest for \$1.	\$            60,000	\$            70,000
Agreement payable of \$300,000, payable in annual installments of \$30,000, of which \$30,000 has been paid. The loan does not bear interest and is secured by a first mortgage on a mineral property interest. In the event of default, the lender has the option to obtain the mineral property interest for \$1. In accordance with the accounting policy for financial instruments, the fair value on inception, using a market interest rate of 15% was determined to be \$150,563. The difference of \$149,437 will be accreted over the remaining life until maturity using amortized cost method. For the three-months ended March 31, 2010, \$972 (2009: \$nil) of accretion has been charged to the statement of operations and credited to agreements payable.	126,739	125,767
Agreement payable of \$2,000,000, payable in annual installments of \$250,000 of which \$750,000 has been paid. The loan does not bear interest and is secured by a first mortgage on a mineral property interest. In the event of default the lender has the option to obtain the mineral property interest for \$1. In accordance with the accounting policy for financial instruments, the fair value on inception, using a market interest rate of 9.25% was determined to be \$1,370,940. The difference of \$629,060 is accreted over the remaining life until maturity using amortized cost method. For the three-months ended March 31, 2010, \$15,080 (2009: \$12,824) of accretion has been charged to statement of operations and credited to agreements payable.	769,124	754,044
	<hr/>	<hr/>
	955,863	949,811
Less: Current portion:	290,000	290,000
	<hr/>	<hr/>
	\$    665,863	\$    659,811
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Note 7 Long-term Debt – (cont'd)

**Convertible Debenture payable**

**March  
31, 2010**

**December  
31, 2009**

Convertible debenture (the “Debenture”) of \$7,547,400 (CAD\$9,000,000) bearing interest at the rate of 7% per annum, compounded annually, due February 2012 and secured by a floating charge over all of the Company's acquired property and assets. The Debenture may be converted into the Company's common shares (the "Common Shares") at a fixed conversion price of CAD\$0.50 per Common Share (the "Conversion Price") in certain circumstances. The principal amount of the Debenture, plus accrued and unpaid interest thereon, may be converted (1) by the Company in the event that the Company has obtained all of the permits required to construct and operate either the Centennial or the Dewey-Burdock project; or (2) by the lender at any time, provided that each conversion shall be a minimum of CAD\$100,000 of the principal amount of the Debenture, until (a) repayment in full by the Company of any outstanding principal and interest outstanding on the Debenture, or (b) conversion upon the request of the Company pursuant to (a) above.

The Conversion Price and the number of Common Shares issuable upon conversion of the Debenture are subject to anti-dilution adjustments in the event of a subdivision, consolidation or reclassification of the Common Shares or the issuance of Common Shares to shareholders as a stock dividend. The Company has also agreed not to take certain corporate actions without the consent of the lender until the earlier of: (i) the conversion of the entire Debenture into Common Shares in accordance with the terms and conditions of the Debenture; and (ii) the maturity date.

In accordance with the accounting policy for financial instruments, the convertible debenture was bifurcated into equity and liability components using the relative fair measure method. The equity component was determined using the Black Scholes method with the following assumptions: 90.95% volatility, 0% dividend yield, 1.50% risk-free interest rate and an expected life of three years. The liability component was determined using an implied market interest rate of 15%.

As of March 31, 2010, \$9,533,162 (CAD\$9,712,849) of principal and interest is outstanding and payable.

\$ 7,633,678 \$ 7,052,160

For the three months ended March 31, 2010, \$218,506 (2009: \$87,822) of accretion and accrued interest of \$151,658 (2009: \$66,332) has been charged to statement of operations and credited to convertible debt. The amount allocated to the equity components is \$2,363,211 and the resulting discount to the debt is being accreted over the remaining life until maturity using amortized cost method.

Note 7 Long-term Debt – (cont'd)

<b>Loan Facility</b>	<b>March 31, 2010</b>	<b>December 31, 2009</b>
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During August 2009, the Company obtained a bridge loan in the amount of \$3,215,745 (CAD\$3,450,000) (the “Bridge Loan”) that bore interest at the rate of 9% per annum, compounded annually, that matured at the time of initial drawdown under the Loan Facility (see below).

Shortly after the Bridge Loan the Company entered into a loan facility with Synatom (the “Loan Facility”) for \$12,700,000 (CAD\$13,800,000). The Company intends to use the net proceeds of the Bridge Loan and the Loan Facility for working capital and to advance its mineral properties towards production.

During October 2009, concurrent with the entering into of the Loan Facility, the Company drew down the first \$3,339,600 (CAD\$3,450,000) tranche and used the proceeds to repay the Bridge Loan. In addition, the Company paid interest charges of \$57,642 (CAD\$59,548).

The Loan Facility is divided into four equal tranches of CAD\$3,450,000 each. Only the principal amount of the second tranche may be convertible into common shares of the Company at a conversion price of CAD\$0.50 per common share and are subject to anti-dilution adjustments. In accordance with the accounting policy for financial instruments, the convertible debenture was bifurcated into equity and liability components using the relative fair measure method. The equity component was determined using the Black Scholes method with the following assumptions: 102.60% volatility, 0% dividend yield, 0.88% risk-free interest rate and an expected life of 18 months. The liability component was determined using an implied market interest rate of 8.3%.

The first and second tranches bear interest at the rate of 7% per annum, and each of the third and fourth tranches will bear interest at the rate of 9% per annum, with interest for each tranche compounding annually and accruing from the date of drawdown and payable at the respective tranche maturity date. The maturity date for the funds drawn down under each tranche is 18 months from the actual drawdown date of such tranche.

As of March 31, 2010, \$10,347,687 (CAD\$10,542,727) of principal and interest was outstanding and payable.	\$	9,692,761	\$	5,894,432
Less current portion:		–		–
		\$ 9,692,761		\$ 5,894,432

Note 7 Long-term Debt – (cont'd)

**Loan Facility** - (cont'd)

For the three months ended March 31, 2010, \$118,788 of accretion and accrued interest of \$117,099 has been charged to statement of operations and credited to convertible debt. The amount allocated to the equity components is \$785,541 and the resulting discount to the debt is being accreted over the remaining life until maturity using amortized cost method.

Note 8 Commitments and Contingencies

The Company is subject from time to time to legal proceedings and claims, either asserted or unasserted, that arise in the ordinary course of business. While the outcome of these proceedings and claims cannot be predicted with certainty, the Company's management does not believe that the outcome of any of these legal matters will have a material adverse affect on its consolidated financial position, results of operations or cash flows.

Note 9 Capital Management

The capital structure of the Company consists of shareholders' equity, long-term debt and cash and cash equivalents as noted below:

	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
Components of Capital:		
Shareholders' equity	\$ 28,783,374	\$ 30,528,250
Long-term debt	17,992,302	13,606,403
Less:		
Cash and cash equivalents	<u>(4,963,230)</u>	<u>(3,581,859)</u>
	<u>\$ 41,812,446</u>	<u>\$ 40,552,794</u>

The Company's objectives when managing capital are:

- to manage capital in a manner which balances the interest of equity and debt holders;
- to manage capital in a manner that will maintain compliance with its financial covenants; and
- to maintain a capital base so as to maintain investor, creditor and market confidence and to sustain future development.

The Company has the ability to adjust its capital structure by issuing new equity or debt, selling assets to reduce debt or balance equity and making adjustments to its capital expenditure program subject to restrictions imposed by Synatom.

There have been no changes to the Company's capital structure, objectives, policies and processes over the prior year.

Note 10 Financial Instruments

**Fair Value of Financial Instruments**

The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862 "*Financial Instruments – Disclosures*" requires disclosure of a three-level hierarchy for fair value measurements based upon transparency of inputs to the valuation of financial instruments carried on the balance sheet at fair value. The fair value hierarchy of financial instruments measured at fair value on the balance sheet date is as follows:

Note 10 Financial Instruments – (cont'd)

**Fair Value of Financial Instruments** – (cont'd)

As at March 31, 2010

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 4,963,230	\$ –	\$ –	\$ 4,963,230
Restricted cash	<u>557,992</u>	<u>–</u>	<u>–</u>	<u>557,992</u>
	<u>\$ 5,521,222</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 5,521,222</u>

The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

**Financial risk management**

In the normal course of operations, the Company is exposed to various risks such as foreign exchange, interest rate, credit, and liquidity risk. To manage these risks, management determines what activities must be undertaken to minimize potential exposure to risks. The objectives of the Company in managing risk are as follows:

- maintaining sound financial condition;
- financing operations; and
- ensuring liquidity to all operations.

In order to satisfy these objectives, the Company has adopted the following policies:

- prepare budget documents at prevailing market rates to ensure clear, corporate alignment to performance management and achievement of targets; and
- recognize and observe the extent of operating risk within the business;

There have been no changes in risks that have arisen or how the Company manages those risks from the prior period.

(i) Foreign exchange risk

The foreign exchange risk relates to the risk that the value of financial commitments and recognized assets or liabilities will fluctuate due to changes in currency rates other than the US dollar. The most significant impact of foreign exchange is on the Company's net loss and other comprehensive income due to the translation of balances denominated in a currency other than the US dollar using the temporal method. The Company is also exposed to foreign exchange risk arising from:

- cash balances held in CAD currencies;
- borrowings denominated in CAD currencies; and
- firm commitments payments settled in CAD currencies or with prices dependent on CAD currencies.

The Company does not hedge its exposure to foreign currency exchange risk.

Note 10 Financial Instruments – (cont'd)

**Financial risk management** – (cont'd)

The Company is exposed to foreign currency risk in respect of trade payables of \$59,311 and debt obligations of \$19,880,850. At March 31, 2010 this balance was converted at rate of \$0.9815 CAD to \$1.00 USD.

There are no significant non-financial assets and liabilities that have foreign currency risk exposure.

As at March 31, 2010, with other variables unchanged, a \$0.01 strengthening (weakening) of the United States dollar against the Canadian dollar would increase (decrease) the Company's net loss by \$227,408.

(ii) Credit Risk

Credit risk is primarily associated with trade receivables, GST recoverable and to a lesser extent, cash equivalents. The Company closely monitors its financial assets and does not have any significant concentration of credit risk. The Company does not sell a product and therefore does not have credit risks. Cash and cash equivalents are held through large international financial institutions. Cash and cash equivalents are comprised of financial instruments issued by Canadian banks and companies with high investment-grade ratings. These investments mature within 90 days of the balance sheet date. The Company is not exposed to significant credit risk as the GST recoverable is due from government agencies. The Company's maximum exposure to credit risk at the balance sheet date is as follows:

	<u>March 31,</u> <u>2010</u>	<u>December</u> <u>31, 2009</u>
Cash and cash equivalents	\$ 4,963,230	\$ 3,581,859
Receivables	<u>3,212</u>	<u>35,979</u>
	<u>\$ 4,966,442</u>	<u>\$ 3,617,838</u>

iii) Liquidity risk

The Company has a cash forecast and budgeting process in place to assist with the determination of funds required to support the Company's operating requirements on an ongoing basis and its expansion plans. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined in Note 11. The following table summarizes the contractual maturities of the Company's significant financial liabilities and capital commitments, including contractual obligations:

	<u>Less than 1 year</u>	<u>1 to 3 years</u>	<u>4 to 5 years</u>	<u>Thereafter</u>	<u>Total</u>
Lease obligations	\$ 795,642	\$ 877,371	\$ 241,261	\$ 44,907	\$ 1,959,181
Accounts payable and accrued liabilities	497,745	–	–	–	497,745
Purchase option	375,000	9,348,000	–	–	9,723,000
Agreements payable	290,000	870,000	330,000	90,000	1,580,000
Loan facility	–	10,347,687	–	–	10,347,687
Convertible debt	–	<u>9,533,162</u>	–	–	<u>9,533,162</u>
	<u>\$ 1,958,387</u>	<u>\$ 30,976,220</u>	<u>\$ 571,261</u>	<u>\$ 134,907</u>	<u>\$ 33,640,775</u>

The convertible debenture and the second tranche of the loan facility is convertible in cash or shares, and may not result in a cash outflow.

Note 10     Financial Instruments – (cont'd)

**Financial risk management** – (cont'd)

iv) Interest rate risk

The Company is exposed to interest rate risk on its outstanding short-term investments. The Company is not exposed to interest rate risk on its outstanding borrowings. The only outstanding interest-bearing borrowings as at March 31, 2010 are the Debenture and the Loan Facility, which have a fixed interest rate.

Note 11     Comparative Figures

Certain comparative figures as at and for the three-month period ended March 31, 2009 have been reclassified in order to comply with the financial statement presentation adopted for the current period.