



POWERTECH URANIUM CORP.
(An Exploration Stage Company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2013

(Stated in United States Dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited interim condensed consolidated financial statements for Powertech Uranium Corp have been prepared by management in accordance with International Financial Reporting Standards. These interim condensed consolidated financial statements, which are the responsibility of management are unaudited and have not been reviewed by the Company's auditors. The Company's Audit Committee and Board of Directors has reviewed and approved these interim condensed consolidated financial statements.

The Company's independent auditor has not performed a review of these interim condensed consolidated financial statements in accordance with the disclosure requirements of National Instrument 51-102 released by the Canadian Securities Administrators.

POWERTECH URANIUM CORP.

(An Exploration Stage Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

September 30, 2013 and December 31, 2012

(Stated in United States Dollars)

	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
ASSETS		
Current		
Cash and cash equivalents	\$ 306,366	\$ 649,828
Receivable	7,823	53,230
Deposits	21,035	21,204
Prepaid expenses	<u>19,541</u>	<u>17,794</u>
	354,765	742,056
Non-current		
Restricted cash	208,030	208,030
Mineral properties – Schedule 1	39,271,524	48,969,318
Building and equipment – Note 5	<u>99,782</u>	<u>122,471</u>
Total assets	<u>\$ 39,934,101</u>	<u>\$ 50,041,875</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities – Note 8	\$ 1,529,128	\$ 654,358
Warrant liability – Note 7	477,212	49,397
Derivative liability – Note 6	293,327	–
Current portion of long-term debt – Note 6	<u>1,435,000</u>	<u>45,000</u>
	3,734,667	748,755
Non-current		
Debenture – Note 6	289,142	–
Agreements payable – Note 6	<u>717,425</u>	<u>1,070,926</u>
Total liabilities	4,741,234	1,819,681
SHAREHOLDERS' EQUITY		
Share capital – Note 7	72,881,213	72,291,985
Contributed surplus – Note 7	7,696,765	7,642,929
Deficit	<u>(45,385,111)</u>	<u>(31,712,720)</u>
	<u>35,192,867</u>	<u>48,222,194</u>
Total liabilities and shareholder's equity	<u>\$ 39,934,101</u>	<u>\$ 50,041,875</u>

Subsequent event – Note 11

APPROVED BY THE DIRECTORS:

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

“Malcolm Clay” Director
Malcolm Clay

SEE ACCOMPANYING NOTES

POWERTECH URANIUM CORP.

(An Exploration Stage Company)

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
(UNAUDITED)

for the three and nine months ended September 30, 2013 and 2012

(Stated in United States Dollars)

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
General and administrative expenses				
Depreciation	\$ 5,602	\$ 12,652	\$ 22,086	\$ 44,457
Audit and accounting fees	856	4,323	15,138	26,765
Community and media relations	6,416	461	33,349	4,729
Director fees – Note 8	12,989	13,559	39,576	47,813
Filing fees	215	151	42,352	23,300
Foreign exchange (gain)/loss	(39,372)	46,333	(5,170)	(22,609)
Insurance	21,817	23,202	62,174	70,400
Investor relations and promotion	12,524	8,430	25,300	36,586
Legal fees	69,365	9,063	115,719	54,245
Management and consulting fees – Note 8	87,933	96,352	310,830	287,370
Office	78,670	104,211	256,798	283,135
Transfer agent fees	1,903	1,525	6,711	11,285
Travel and accommodation	49,470	20,676	109,897	78,453
Wages and benefits – Note 8	<u>148,557</u>	<u>142,150</u>	<u>447,539</u>	<u>697,628</u>
Loss from operations	(456,945)	(483,088)	(1,482,299)	(1,643,557)
Finance income (costs)				
Interest income	4	8,618	3,712	51,801
Accretion – Note 6	(58,463)	(26,360)	(112,137)	(77,220)
Gain (loss) on re-measurement of warrant liability				
– Note 6	(21,473)	–	305,624	–
Gain (loss) on re-measurement of financial and				
derivative liability – Note 6	(42,423)	(140,403)	(42,423)	(345,701)
Impairment charges – Note 4	(12,344,868)	–	(12,344,868)	–
Gain on sale of equipment – Note 5	<u>–</u>	<u>–</u>	<u>–</u>	<u>214,527</u>
	<u>(12,467,223)</u>	<u>(158,145)</u>	<u>(12,190,092)</u>	<u>(156,593)</u>
Net loss before income taxes	(12,924,168)	(641,233)	(13,672,391)	(1,800,150)
Future income tax benefit	<u>–</u>	<u>77,789</u>	<u>–</u>	<u>157,832</u>
Net loss and comprehensive loss for the period	\$ (12,924,168)	\$ (563,444)	\$ (13,672,391)	\$ (1,642,318)
Basic loss per common share – Note 10	<u>\$ (0.09)</u>	<u>\$ (0.01)</u>	<u>\$ (0.10)</u>	<u>\$ (0.02)</u>
Diluted loss per common share – Note 10	<u>\$ (0.09)</u>	<u>\$ (0.01)</u>	<u>\$ (0.10)</u>	<u>\$ (0.02)</u>
Basic weighted average number of shares outstanding				
– Note 10	<u>140,801,362</u>	<u>103,301,362</u>	<u>137,614,549</u>	<u>103,301,362</u>
Diluted weighted average number of shares				
outstanding – Note 10	<u>140,801,362</u>	<u>103,301,362</u>	<u>137,614,549</u>	<u>103,301,362</u>

SEE ACCOMPANYING NOTES

POWERTECH URANIUM CORP.

(An Exploration Stage Company)

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

for the nine months ended September 30, 2013 and 2012 and the period ended December 31, 2012

(Stated in United States Dollars)

	Number of Common Shares	Share capital	Contributed Surplus	Deficit	Total
Balance, December 31, 2011	103,301,362	\$ 69,685,693	\$ 7,224,676	\$ (30,089,741)	\$ 46,820,628
Stock-based compensation	–	–	418,253	–	418,253
Total comprehensive loss for the period	–	–	–	(1,642,318)	(1,642,318)
Balance, September 30, 2012	103,301,362	\$ 69,685,593	\$ 7,642,929	\$ (31,732,059)	\$ 45,596,563
Share issuance, net	22,500,000	2,335,058	–	–	2,335,058
Deferred tax recovery	–	271,234	–	–	271,234
Total comprehensive income for period	–	–	–	19,339	19,339
Balance, December 31, 2012	125,801,362	\$ 72,291,985	\$ 7,642,929	\$ (31,712,720)	\$ 48,222,194
Share issuance, net (Note 7)	15,000,000	589,228	53,836	–	643,064
Total comprehensive loss for the period	–	–	–	(13,672,391)	(13,672,391)
Balance, September 30, 2013	140,801,362	\$ 72,881,213	\$ 7,696,765	\$ (45,385,111)	\$ 35,192,867

SEE ACCOMPANYING NOTES

POWERTECH URANIUM CORP.
(An Exploration Stage Company)
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
for the nine months ended September 30, 2013 and 2012
(Stated in United States Dollars)

	<u>2013</u>	<u>2012</u>
Operating Activities		
Loss for the period	\$ (13,672,391)	\$ (1,642,318)
Adjustments to reconcile loss to net cash used in operating activities:		
Accretion	112,137	77,220
Depreciation	22,086	44,457
Stock based compensation	-	249,146
Deferred income tax benefit	-	(157,832)
Gain on sale of equipment	-	(214,527)
Impairment charges	12,344,868	-
Loss on re-measurement of financial liability	-	345,701
Loss on derivative liability	42,423	-
Gain on warrant liability	(305,624)	-
Unrealized foreign exchange (gain)/loss	<u>19,731</u>	<u>(596,567)</u>
	(1,436,770)	(1,894,720)
Net change in non-cash working capital balances:		
Receivables	44,610	(28,143)
Deposits	-	1,958
Prepaid expenses	(2,189)	52,459
Accounts payable and accrued liabilities	<u>1,048,728</u>	<u>756,749</u>
Total cash outflows from operating activities	<u>(345,621)</u>	<u>(1,111,697)</u>
Investing Activities		
Proceeds from sale of equipment	-	243,000
Restricted cash	-	51,000
Advance on sale of mineral property interest	1,000,000	-
Mineral property interests	<u>(3,315,074)</u>	<u>(2,644,404)</u>
Total cash outflows from investing activities	<u>(2,215,074)</u>	<u>(2,350,404)</u>
Financing Activities		
Long-term debt repayment	(45,000)	(45,000)
Long-term debt issuance	500,000	-
Issuance of common shares	1,463,400	-
Costs of issuance of common shares	<u>(83,352)</u>	<u>-</u>
Total cash inflows/ (outflows) from financing activities	<u>1,835,048</u>	<u>(45,000)</u>
Foreign exchange (gain)/ loss on cash	<u>(17,815)</u>	<u>63,150</u>
Total increase (decrease) in cash during the period	(343,462)	(3,443,951)
Cash and cash equivalents, beginning of the period	<u>649,828</u>	<u>4,057,505</u>
Cash and cash equivalents, end of the period	<u>\$ 306,366</u>	<u>\$ 613,554</u>
Cash and cash equivalents consists of:		
Cash	\$ 306,366	\$ 101,442
Cash equivalents	<u>-</u>	<u>512,112</u>
Total cash and cash equivalents, end of period	<u>\$ 306,366</u>	<u>\$ 613,554</u>
Non-cash Transactions – Note 9		

SEE ACCOMPANYING NOTES

POWERTECH URANIUM CORP.

Schedule 1

(An Exploration Stage Company)

INTERIM CONDENSED CONSOLIDATED SCHEDULE OF MINERAL PROPERTIES (UNAUDITED)

for the nine months ended September 30, 2013 and year ended December 31, 2012

(Stated in United States Dollars)

	<u>South Dakota</u>	<u>Wyoming</u>	<u>Colorado (Note 4)</u>	<u>Total</u>
Balance, December 31, 2011	\$ 27,057,807	\$3,461,164	\$15,143,826	\$ 45,662,797
Land services	8,633	8,633	8,933	26,199
Legal fees	150,757	464	-	151,221
Claims fees	51,800	106,960	-	158,760
Land/lease payments	154,589	97,964	16,887	269,440
Drilling/ Engineering	67,642	-	2,987	70,629
Permitting	2,079,138	10,000	408	2,089,546
Impairment	(12,320)	(52,425)	-	(64,745)
Sale of land	-	-	(333,659)	(333,659)
Wages/Consulting	<u>839,495</u>	<u>99,635</u>	<u>-</u>	<u>939,130</u>
Balance, December 31, 2012	\$ 30,397,541	\$3,732,395	\$14,839,382	\$ 48,969,318
Legal fees	390,514	-	-	390,514
Land/lease payments	129,555	60,580	13,986	204,121
Claims	51,800	106,960	-	158,760
Drilling/ Engineering	674	-	-	674
Permitting	1,314,755	-	-	1,314,755
Impairment	-	-	(12,344,868)	(12,344,868)
Wages/Consulting	<u>517,500</u>	<u>60,750</u>	<u>-</u>	<u>578,250</u>
Balance, September 30, 2013	<u>\$ 32,802,339</u>	<u>\$3,960,685</u>	<u>\$2,508,500</u>	<u>\$ 39,271,524</u>

SEE ACOMPANYING NOTES

POWERTECH URANIUM CORP.
(An Exploration Stage Company)
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2013 and 2012
(UNAUDITED)

Note 1 Nature of Operations

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 located in South Dakota, Wyoming, and Colorado, USA. During November 2013, the address of the Company's corporate office and principle place of business changed to 5575 DTC Parkway Suite 104, Greenwood Village, CO, United States.

The Company is in the process of evaluating 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 amounts 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 interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") 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 interim condensed 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 September 30, 2013, the Company had not yet achieved profitable operations, had a deficit of \$45,385,111 and negative working capital, not including warrant and derivative liabilities, of \$2,609,363. The Company's focus is furthering its permitting applications at its Dewey-Burdock project. Therefore it will incur future losses which cast significant doubt as to the Company's ability to continue as a going concern which is dependent upon its ability to raise the necessary funds 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 Company has had success in the past in equity raisings and will continue to assess all alternatives if additional funds are required. The Company received additional financing subsequent to September 30, 2013, see Note 11 for further information.

Note 2 Statement of Compliance

These interim condensed consolidated financial statements are unaudited and have been prepared in accordance with IAS 34 "Interim Financial Reporting" ("IAS 34") using accounting policies consistent with the IFRS as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These interim condensed consolidated financial statements should be read in conjunction with the Company's 2012 annual consolidated financial statements. There have been no changes to accounting policies during the nine months ended September 30, 2013.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on November 8, 2013.

Note 3 Basis of Measurement

The interim condensed consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments which is measured at fair value through profit and loss. The interim condensed consolidated financial statements are presented in US dollars, which is also the Company's functional currency. References to "C\$" refer to Canadian currency and "\$" to United States currency.

The preparation of interim condensed consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. See Note 4 of our December 31, 2012 audited consolidated financial statements for more details on our critical accounting estimates and judgements.

Note 4 Mineral Properties

During July 2013, Azarga Resources Limited ("Azarga"), an arms-length party, agreed to purchase (the "Property Purchase Transaction") a 60% interest in the Company's Centennial Project located in Weld County, Colorado for a total purchase price (the "Purchase Price") of \$1,500,000 to be paid over two years pursuant to a letter agreement between Azarga and the Company dated July 31, 2013 (the "Letter Agreement"). The Company will retain a 40% interest in the Centennial Project.

Azarga agreed to pay the Purchase Price by delivering (a) \$250,000 to the Company on execution of the Letter Agreement (completed and received), (b) \$750,000 within 30 days of the execution of the Letter Agreement (received) and (c) \$500,000 on or before the closing date of November 30, 2013 payable by way of a promissory note issued by Azarga to the Company with \$250,000 payable on or before the date that is 12 months after the closing date and \$250,000 payable on or before the date that is 24 months after the closing date. As the Property Purchase Transaction was not closed as of September 30, 2013, the aggregate payments in the amount of \$1,000,000 that have been made towards the Purchase Price are being treated as an advance as these payments will convert to a debenture if the Property Purchase Transaction does not close on or before November 30, 2013.

The Letter Agreement also provides for a put option whereby the Company can sell its remaining 40% interest in the Property to Azarga at any time on or after January 1, 2017 for \$250,000, and for a call option whereby Azarga can purchase the Company's remaining 40% interest in the Property either: (i) at any time on or after January 1, 2017 for \$7,000,000, or (ii) within ten days of the occurrence of a change of control of the Company for \$1,000,000. Neither the put or call option has been factored into the initial measurement of this instrument due to its future conditional element that is indeterminable at this time.

In accordance with our policy on mineral property impairment, Management evaluated the recoverable amount of the Centennial Project, considering this transaction, and determined an impairment charge was required to the carrying value of the Centennial Project. The Company determined the recoverable value of 100% of the Centennial Project to be \$2,500,000 based on a gross-up of the fair value of consideration agreed of \$1,500,000 for 60% of project, which resulted in an impairment charge of \$12,344,868 during the third quarter of 2013.

Note 5 Building and Equipment

	<u>Building</u>	<u>Computer equipment</u>	<u>Field equipment</u>	<u>Office equipment</u>	<u>Vehicles</u>	<u>Total</u>
Cost						
Balance, December 31, 2012	\$ 92,628	\$ 233,034	\$ 127,923	\$ 70,980	\$ 30,505	\$ 555,070
Retired during the period	—	—	—	(15,545)	—	(15,545)
Balance, September 30, 2013	<u>\$ 92,628</u>	<u>\$ 233,034</u>	<u>\$ 127,923</u>	<u>\$ 55,435</u>	<u>\$ 30,505</u>	<u>\$ 539,525</u>
Depreciation						
Balance, December 31, 2012	\$ 9,033	\$ 216,795	\$ 108,363	\$ 67,903	\$ 30,505	\$ 432,599
Retired during the period	—	—	—	(14,942)	—	(14,942)
For the period	1,737	9,923	8,525	1,901	—	22,086
Balance, September 30, 2013	<u>\$ 10,770</u>	<u>\$ 226,718</u>	<u>\$ 116,888</u>	<u>\$ 54,862</u>	<u>\$ 30,505</u>	<u>\$ 439,743</u>
Carrying amount						
At December 31, 2012	<u>\$ 83,595</u>	<u>\$ 16,239</u>	<u>\$ 19,560</u>	<u>\$ 3,077</u>	<u>\$ —</u>	<u>\$ 122,471</u>
At September 30, 2013	<u>\$ 81,858</u>	<u>\$ 6,316</u>	<u>\$ 11,035</u>	<u>\$ 573</u>	<u>\$ —</u>	<u>\$ 99,782</u>

During the nine months ended September 30, 2012, the Company sold its logging truck and related field equipment for proceeds of \$243,000 which resulted in a gain on the sale of equipment of \$214,527.

Note 6 Long-term Debt

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Agreements payable		
\$100,000 payable ^(a)	\$ 30,000	\$ 40,000
\$300,000 payable ^(b)	98,520	115,116
\$2,000,000 payable ^(c)	1,023,905	960,810
Debenture ^(d)	289,142	—
Advance ^(e)	<u>1,000,000</u>	<u>—</u>
	2,441,567	1,115,926
Less current portion	<u>1,435,000</u>	<u>45,000</u>
	<u>\$ 1,006,567</u>	<u>\$ 1,070,926</u>

^(a) Agreement payable of \$100,000, payable in annual instalments of \$10,000 of which \$70,000 (2012: \$60,000) has been paid to date. As of September 30, 2013, the balance owed is \$30,000. Of this amount, \$10,000 is due within the next 12 months. 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. Upon receipt of certain permits, the Company will owe an additional \$750,000 in increments of \$187,500 annually for four years.

^(b) Agreement payable of \$300,000, payable in annual instalments of \$30,000 of which \$150,000 (2012: \$120,000) has been paid to date. As of September 30, 2013, the balance owed is \$150,000. Of this amount, \$30,000 is due within the next 12 months. 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 initial fair value was determined using a market interest rate applicable at that time. The difference between the fair value and the debt obligation is being accreted over the remaining life until maturity using amortized cost method. Upon receipt of certain permits, the Company will owe an additional \$1,300,000 in increments of \$325,000 annually for four years.

During the three and nine months ended September 30, 2013, \$4,682 and \$13,404, respectively (three and nine months ended September 30, 2012: \$5,134 and \$14,748, respectively) of accretion has been charged to the consolidated statement of comprehensive loss and credited to agreements payable.

Note 6 Long-term Debt – (cont'd)

(c) Agreement payable of \$2,000,000, payable in annual instalments ranging from \$5,000 to \$395,000 of which \$815,000 (2012: \$810,000) has been paid to date. During September 2010, instalment payments were renegotiated to the following terms: 2010: \$50,000; 2011 and 2012: \$350,000 and 2013 and 2014: \$250,000. During September 2011, instalment payments were renegotiated again to the following terms: 2011 through 2013: \$5,000 and 2014 through 2016: \$395,000. As of September 30, 2013, the balance owing was \$1,185,000. Of this amount, \$395,000 is due within the next 12 months. Upon receipt of the regulatory permits and licenses on the Centennial project, an additional \$2,000,000 will be due.

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 initial fair value was determined using a market interest rate applicable at that time. The difference between the period balance of \$1,023,905 at September 30, 2013 and the debt obligation of approximately \$1,190,000 is being accreted over the remaining life until maturity using amortized cost method.

During the three and nine months ended September 30, 2013, \$23,143 and \$68,095, respectively (three and nine months ended September 30, 2012: \$21,226 and \$62,472, respectively) of accretion expense has been charged to the statement of comprehensive loss and credited to agreements payable.

(d) During July 2013, Azarga agreed to make a strategic investment in the Company and to form certain strategic alliances with the Company. The Company issued a debenture to Azarga in the principal amount of C\$514,350 (\$500,000) (the “Debenture”) pursuant to the terms and conditions of a private placement agreement dated July 31, 2013 (the “Private Placement Agreement”) between the Company and Azarga. The Debenture does not bear interest and is unsecured. The Debenture matures on July 31, 2015 (the “Maturity Date”), and may be prepaid by the Company, in whole or in part, during the first 12 months for an amount equal to 115% of the principal sum being repaid, and during the second 12 months, but on or before the Maturity Date, for an amount equal to 130% of the principal sum being repaid.

The Company, at its option and any time on or before the Maturity Date, may convert all or a portion of the principal amount of the Debenture into common shares of the Company (each, a “Share”) at a price of C\$0.07 per Share, subject to adjustment in accordance with the terms of the Debenture (the “Conversion Price”). The amount of shares to be issued if the conversion is in the first 12 months after issuance will be equal to the number of Shares as determined by dividing the amount which is 115% of the principal amount being converted by the Conversion Price, and if the conversion is in the second 12 months after issuance, will be equal to the number of Shares as determined by dividing the amount which is 130% of the principal amount being converted by the Conversion Price. The Debenture was converted by the Company subsequent to September 30, 2013. See Note 11 for complete discussion.

The convertible debenture is presented as a liability since it contains no equity components. The convertible debenture is a hybrid instrument, containing a debt host component and three related embedded derivatives - the Company’s prepayment option, Azarga’s conversion option and the a foreign exchange derivative being a difference in the denomination of the conversion rate and functional currency (the “embedded derivatives”). The debt host component is classified as other-financial-liabilities and is measured at amortized cost using the effective interest rate method and the embedded derivatives are classified as fair value through profit or loss and all changes in fair value are recorded in profit or loss. The difference between the debt host component and the principal amount of the loan outstanding is accreted to profit or loss over the expected life of the convertible debenture. The fair value of the debenture of \$250,904 was determined by fair valuing the instrument and the put option using assumptions and inputs in a valuation model.

Note 6 Long-term Debt – (cont'd)

The Company re-measures the fair value of the derivative liability each reporting period resulting in a gain on the fair value of the promissory note liability of \$42,423 for the three months ended September 30, 2013.

The inputs used in a put option valuation model to fair value the financial liability are:

	<u>At Inception</u>	<u>September 30,</u> <u>2013</u>
Conversion price	\$ 0.07	\$ 0.07
Share price	\$ 0.09	\$ 0.10
Term	1 year	0.83 years
Volatility	76	76
Risk free rate	1%	1%
Dividend yield	nil	nil

The difference between the period balance of \$289,142 at September 30, 2013 and the debt obligation of approximately \$498,817 is being accreted over the remaining life until maturity using amortized cost method. During the three and nine months ended September 30, 2013, \$30,638 of accretion expense has been charged to the statement of comprehensive loss and credited to agreements payable.

(e) Advance by Azarga with respect to the Property Purchase Transaction which is fully discussed in Note 4.

Note 7 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</u> <u>Surplus^(b)</u>
Balance, December 31, 2012	125,801,362	\$ 72,291,985	\$ 7,642,929
Share issuance ^(a)	15,000,000	745,450	–
Share issuance costs	–	(156,222)	53,836
Balance, September 30, 2013	<u>140,801,362</u>	<u>\$ 72,881,213</u>	<u>\$ 7,696,765</u>

^(a) On February 27, 2013, the Company completed a non-brokered private placement (“2013 Private Placement”) of 15,000,000 units (the “Units”) at a price of \$0.09 (C\$0.10) per Unit to raise gross proceeds of \$1,463,400 (C\$1,500,000). Each unit comprised of one common share and one share purchase warrant. One warrant entitles the holder thereof to purchase one additional common share at a price of C\$0.20 per share for a period of three years from the closing of the 2013 Private Placement. In addition, the Company paid an aggregate \$83,000 and issued 849,800 warrants to the finders in connection with the 2013 Private Placement. Each warrant entitles the holder to purchase one additional common share at a price of C\$0.115 per common share for a period of three years from the closing of the 2013 Private Placement. The fair value of the share warrants to finders of approximately \$55,000 was estimated using the Black-Scholes pricing model. Assumptions used in the pricing model at inception, February 27, 2013 are as follows: 84.18% volatility, 1% interest risk free rate, 3 years and 0% dividend yield.

Note 7 Share Capital and Contributed Surplus – (cont'd)

Common Shares Issued – (cont'd)

^(b) Contributed surplus is comprised of the fair value of stock-based compensation and the fair value of agent's/finder's warrants.

Share Purchase Warrants:

Share purchase warrant liability

	September 30, 2013	December 31, 2012
Balance, beginning of period	\$ 49,000	\$ -
Fair value at inception, February 2013 ^(a)	743,000	-
Fair value at inception, November 2012 ^(b)	-	49,000
Fair value change on derivative liability and foreign currency translation for the period	(315,000)	-
Balance, end of period	\$ 477,000	\$ 49,000

^(a) As part of the 2013 Private Placement discussed above, 15,849,800 whole share purchase warrants were issued. Each whole warrant entitles the holder to purchase one common share as follows: 15,000,000 warrants at an exercise price of C\$0.20 and 849,800 warrants at an exercise price C\$0.115 for three years following the closing of the offering under certain circumstances. The 15,000,000 warrants were considered a derivative liability as the exercise price is different than the functional currency of the Company. The fair value of the share purchase warrant liability of \$743,000 was estimated using the Black-Scholes pricing model. Assumptions used in the pricing model at inception, February 27, 2013 are as follows: 84.18% volatility, 1% interest risk free rate, 3 years and 0% dividend yield. Assumptions used in the pricing model at September 30, 2013 are as follows: 84.18% volatility, 1% interest risk free rate, 2.50 years and 0% dividend yield.

^(b) As part of a financing during November 2012 5,000,000 whole share purchase warrants were issued. Each warrant entitles the holder thereof to purchase one additional share at a price of C\$0.20 per share for a period of one year from closing of the financing. The warrants were considered a derivative liability as the exercise price is different than the functional currency of the Company. The fair value of the share purchase warrant liability of \$49,000 was estimated using Black-Scholes pricing model. Assumptions used in the pricing model using the following inputs at September 30, 2013: 56.94% volatility, 1% interest risk free rate, 0.15 year expected life and 0% dividend yield.

Changes in share purchase warrants for the nine months ended September 30, 2013 are as follows:

Expiration Date	Exercise Price (C)	Outstanding at December 31, 2012	Issued during the period	Expired during the period	Outstanding at September 30, 2013
March 15, 2013	\$0.60	23,936,170	-	23,936,170	-
March 15, 2013	\$0.47	3,111,702	-	3,111,702	-
November 6, 2013*	\$0.20	5,000,000	-	-	5,000,000
February 27, 2016	\$0.20	-	15,000,000	-	15,000,000
February 27, 2016	\$0.115	-	849,800	-	849,800
Totals		<u>32,047,872</u>	<u>15,849,800</u>	<u>27,047,872</u>	<u>20,849,800</u>

*Subsequent to September 30, 2013 these warrants were extended to November 6, 2014.

Note 7 Share Capital and Contributed Surplus – (cont'd)

Stock Option Plan:

Under its 2011 Stock Option Plan (the “2011 Plan”), the Company is authorized to grant share purchase options to directors, employees, contractors or consultants of the Company. The Company is permitted to grant options under the 2011 Plan equal to 10% of the issued and outstanding common shares of the Company until the 10th anniversary of the effective date of the 2011 Plan. The exercise price of options granted under the 2011 Plan may not be less than the fair market value of the Company’s common shares at the date such options are granted. The Company’s Board of Directors specifies a vesting period and expiry on a grant-by-grant basis.

At September 30, 2013, there were 5,050,000 options outstanding entitling the holders thereof to purchase one common share for each option held. Share options outstanding were as follows:

<u>Grant Date</u>	<u>Expiration Date</u>	<u>Exercise (C)</u>	<u>Outstanding at December 31, 2012</u>	<u>Granted during period</u>	<u>Expired/ Forfeited during period</u>	<u>Outstanding at September 30, 2013</u>	<u>Vested and exercisable</u>
January 14, 2008	January 14, 2013	\$1.50	200,000	–	(200,000)	–	–
February 7, 2008	February 7, 2013	\$1.00	400,000	–	(400,000)	–	–
June 18, 2008	June 18, 2013	\$1.50	1,200,000	–	(1,200,000)	–	–
May 15, 2012	May 15, 2017	\$0.20	5,050,000	–	–	5,050,000	5,050,000
Totals			<u>6,850,000</u>	<u>–</u>	<u>(1,800,000)</u>	<u>5,050,000</u>	<u>5,050,000</u>
Weighted average exercise price (C)			\$0.51			\$0.20	\$0.20
Weighted average life remaining (years)			3.31			3.62	3.62

Stock-based Compensation:

The Company did not incur stock-based compensation expense during the three and nine month periods ended September 30, 2013. Stock-based compensation was \$418,253 (\$169,107 was included in mineral property costs under wages/consulting) for the three and nine months ended September 30, 2012.

Note 8 Related Party Transactions

Key management Compensation

Key management personnel are persons responsible for planning, directing, and controlling the activities of an entity, and include executive and non-executive directors. Key management personnel compensation comprise:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Director fees and other compensation	\$ 12,989	\$ 89,299	\$ 39,576	\$ 123,553
Management compensation and short-term benefits	<u>261,766</u>	<u>546,914</u>	<u>796,063</u>	<u>828,898</u>
	<u>\$ 274,755</u>	<u>\$ 636,213</u>	<u>\$ 835,639</u>	<u>\$ 952,451</u>

As of September 30, 2013 and December 31, 2012, the Company had an accrued liability of \$8,480 and \$4,500, respectively, to its directors for services rendered but not yet paid.

Note 8 Related Party Transactions (cont'd)

As of September 30, 2013, under the Company's deferred compensation arrangement with certain officers, the Company has a recorded liability of \$410,000 in accrued liabilities (December 31, 2012:\$226,000) which has been included in management compensation and short-term benefits. Certain related parties deferred compensation was settled for commons shares subsequent to September 30, 2013, see Note 11 for complete discussion.

Note 9 Non-cash Transactions

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

- (a) Included in accounts payable and accrued liabilities is approximately \$668,000 (September 30, 2012: \$404,000) relating to mineral properties.
- (b) Fair value of the warrant liability, at inception, of \$743,000 in connection with the 2013 Private Placement.
- (c) Included in mineral properties costs is stock-based compensation of \$169,107 for September 30, 2012 related to employees who were directly involved with the mineral properties.
- (d) Fair value of the derivative liability, at inception, of \$250,000 in connection with the Debenture.

Note 10 Earnings/ (loss) per share

Basic earnings/ (loss) per common share is computed by dividing income/ (loss) available to the Company's common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings/ (loss) per common share is computed similarly to basic earnings per common share except that weighted average common shares is increased to include the potential issuance of dilutive common shares.

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Net loss for the period	\$ (12,924,168)	\$ (563,444)	\$ (13,672,391)	\$ (1,642,318)
Weighted average common shares				
Basic	140,801,362	103,301,362	137,614,549	103,301,362
Diluted	140,801,362	103,301,362	137,614,549	103,301,362
Net loss per common share				
Basic	\$ (0.09)	\$ (0.01)	\$ (0.10)	\$ (0.02)
Diluted	\$ (0.09)	\$ (0.01)	\$ (0.10)	\$ (0.02)

Note 11 Subsequent event

During October 2013, Azarga agreed to make available to the Company a loan facility (the "2013 Facility") in the amount of \$3,600,000 (the "Loan Amount"). The 2013 Facility contains features providing for conversion into common shares of Powertech at a premium to the closing price on Friday, October 18, 2013.

Concurrent with the closing of the Facility, the Company converted the Debenture into 8,450,035 common shares of the Company at C\$0.07 per share, appointed a new director, changed certain

Note 11 Subsequent event – (cont'd)

officers, terminated certain management contracts and proceeded with closing its Vancouver office.

The 2013 Facility provides for Azarga to make one or more advances of the Loan Amount to the Company (each, an “Advance”) provided that: (a) there shall be only one Advance in any calendar month, (b) if Azarga and the Company cannot agree on the applicable amount of the Advance, the amount of the Advance will be \$300,000, and (c) until such time as the Company has obtained disinterested shareholder approval for the 2013 Facility (and the conversion right thereunder) (the “Shareholder Approval”), the aggregate amount of Advances shall be limited to \$2,450,000. Since completion of the 2013 Facility, Azarga has Advanced of \$725,000 to the Company.

The Loan Amount matures October 2015 (the “Maturity Date”) or on such earlier date as the principal amount of all Advances owing from time to time and all other amounts (collectively, the “Principal Amount”) may become payable under the Loan Agreement, and may be repaid by the Company, in whole or in part, during the first 12 months following the October 2013, for an amount equal to 115% of the Principal Amount being repaid, and during the second 12 months, but on or before the Maturity Date, for an amount equal to 130% of the Principal Amount being repaid.

Subject to receipt of the Shareholder Approval and approval of the TSX, the Principal Amount may be converted into Shares as follows (each, a “Conversion”):

- a) by Azarga, at its option and any time after the earlier of (i) the board of directors of the Company (the “Board”) approving a transaction (other than this transaction) which would result in a change of control of the Company or Powertech (USA), Inc. (“Powertech USA”), (ii) a change of control of the Company or Powertech USA, and (iii) the occurrence of an event of default under the Loan Agreement that is not cured within any applicable grace periods;
- b) by Azarga, at its option in whole or in part, at any time after the date that is nine months following the date of the Initial Advance;
- c) by the Company, in whole or in part, at any time on or before the Maturity Date; and
- d) automatically on the Maturity Date;

at a conversion price of C\$0.095 per Share (the “Conversion Price”), subject to adjustment as provided for in the 2013 Facility, or at such other higher price per Share as is provided in the 2013 Facility.

The amount of Shares to be issued if the Conversion is prior to October 2014 will be equal to the number of Shares as determined by dividing the amount which is 115% of the outstanding Principal Amount by the Conversion Price, and if the conversion is after October 2014 Shares to be issued will be equal to the number of Shares as determined by dividing the amount which is 130% of the outstanding Principal Amount by the Conversion Price. For the purposes of the Conversion, the Principal Amount shall be converted into Canadian dollars at the time of Conversion at an exchange rate of C\$1.03 per USD\$1.00 of Principal Amount.

The Company has called a meeting of its shareholders on December 18, 2013 to consider and vote on the approval of all Advances exceeding \$2,450,000 under the 2013 Facility, the conversion right under the 2013 Facility and the premiums payable upon repayment or conversion of the 2013 Facility.

Note 11 Subsequent event – (cont'd)

Upon conversion of the Initial Debenture on October 21, 2013, Azarga's shareholdings of the Company were increased to 33,100,035 Shares representing 22.2% of the outstanding Shares of the Company on an undiluted basis, and 23.0% on a partially diluted basis. Azarga also holds 1,500,000 share purchase warrants, each of which is exercisable at C\$0.20 per share.

Assuming the 2013 Facility is converted at a Conversion Price of C\$0.095 per Share prior to October 2014 in accordance with its terms, approximately 44,886,316 new common shares would be issued to Azarga and Azarga would hold approximately 77,986,352 common shares representing 40.17% on an undiluted basis, and 40.63% on a partially diluted basis assuming exercise of the 1,500,000 warrants.

As part of the closing of the 2013 Facility, the Company has agreed to settle all amounts owing to certain officers and directors in consideration of the issuance of 3,694,736 common shares at the rate of C\$0.095 per share.