

Plutonic

POWER CORPORATION



Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2009 and 2008

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Plutonic Power Corporation are the responsibility of management. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and where appropriate include management's best estimates and judgments.

Management maintains a system of internal control designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and that financial information is timely and reliable.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Board of Directors appoints the Audit Committee, and all of its members are independent directors. The Audit Committee meets periodically with management and the shareholders' auditors to review financial statements and reports prepared by management, internal controls, audit results, accounting principles and related matters. The Board of Directors approves the consolidated financial statements on recommendation from the Audit Committee.

KPMG LLP, an independent firm of Chartered Accountants, was appointed by the shareholders at the last annual meeting to examine the consolidated financial statements and provide an independent professional opinion.

“Donald A. McInnes”

Donald A. McInnes
Chief Executive Officer

March 22, 2010

“Peter G. Wong”

Peter G. Wong
Chief Financial Officer



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Plutonic Power Corporation as at December 31, 2009 and 2008 and the consolidated statements of operations and comprehensive loss, deficit, accumulated other comprehensive loss and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, Canada
March 11, 2010

PLUTONIC POWER CORPORATION

Consolidated Balance Sheets

December 31, 2009 and 2008

	2009	2008
		(restated note 2(b))
Assets		
Current assets:		
Cash	\$ 14,403,920	\$ 28,460,631
Cash restricted for use in construction activities (note 10)	51,863,652	11,774,857
Amounts receivable	174,461	175,055
GST recoverable	662,716	1,208,735
Prepaid expenses	266,907	446,803
Investment (note 7(d))	3,614,647	-
Current portion of builder's lien holdback deposit accounts (note 6)	16,980,220	-
	87,966,523	42,066,081
Performance security deposits	421,458	270,000
Prepaid guarantee fee (note 5)	-	736,293
Builder's lien holdback deposit accounts (note 6)	431,919	8,939,298
Investment (note 7(d))	-	3,614,647
Power project development costs (note 7)	38,286,084	24,630,574
Property, plant and equipment (note 8)	268,166,267	109,916,449
Intangible assets (note 9)	5,630,328	4,840,782
	\$ 400,902,579	\$ 195,014,124
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 8,028,776	\$ 11,431,316
Interest and fees payable (note 10(a))	750,086	418,519
Current portion of interest rate swap contracts (note 11)	4,218,755	823,331
Current portion of builder's lien holdbacks payable (note 6)	17,479,112	-
	30,476,729	12,673,166
Builder's lien holdbacks payable (note 6)	431,919	9,678,636
Long-term debt (note 10)	238,834,356	77,962,568
Interest rate swap contracts (note 11)	9,482,857	9,447,544
Deferred gain on transfer of assets (note 3(a))	16,189,088	16,189,088
	295,414,949	125,951,002
Non controlling interest (note 3(b))	-	16,116,226
Shareholders' equity:		
Share capital (note 13)	140,824,318	74,116,429
Contributed surplus (note 14)	14,148,781	12,342,202
Accumulated other comprehensive loss	(343,879)	(3,638,756)
Deficit	(49,141,590)	(29,872,979)
	105,487,630	52,946,896
Commitments (notes 3, 4 and 17)		
Subsequent events (notes 1, 7, 13 and 18)		
	\$ 400,902,579	\$ 195,014,124

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"Donald A. McInnes" Director

"R. Stuart Angus" Director

PLUTONIC POWER CORPORATION

Consolidated Statements of Operations and Comprehensive Loss

For the years ended December 31, 2009 and 2008

	2009	2008
Expenses:		
Amortization	\$ 68,210	\$ 44,391
Consulting	533,400	322,529
Guarantee fees (note 5)	1,561,293	1,489,035
Office	455,035	343,499
Power project development costs written-off	34,900	287,729
Professional fees	354,491	382,747
Project evaluation	391,806	112,624
Rent	441,700	334,538
Salaries	4,284,751	3,593,879
Share-based compensation	1,413,827	3,035,126
Transfer agent and listing fees	75,934	129,034
Travel and promotion	1,996,640	1,389,094
Loss before the undernoted	(11,611,987)	(11,464,225)
Other income (expenses):		
Interest income	141,443	1,204,045
Realized and unrealized loss on interest rate swap contracts (note 11)	(7,798,067)	(4,063,727)
	(7,656,624)	(2,859,682)
Net loss for the year	(19,268,611)	(14,323,907)
Other comprehensive income (loss):		
Change in fair value of effective portion of interest rate swap designated as a hedge (note 11)	3,294,877	(3,638,756)
Comprehensive loss for the year	\$ (15,973,734)	\$ (17,962,663)
Basic and fully diluted loss per common share	\$ (0.40)	\$ (0.34)
Weighted average number of common shares outstanding	47,602,874	42,715,048

See accompanying notes to consolidated financial statements.

PLUTONIC POWER CORPORATION

Consolidated Statements of Deficit

For the years ended December 31, 2009 and 2008

	2009	2008
Deficit, beginning of year, as originally reported	\$ (29,872,979)	\$ (13,501,705)
Adoption of new accounting standard (note 2(b))	-	(2,047,367)
Deficit, beginning of year, restated	(29,872,979)	(15,549,072)
Net loss for the year	(19,268,611)	(14,323,907)
Deficit, end of year	\$ (49,141,590)	\$ (29,872,979)

Consolidated Statements of Accumulated Other Comprehensive Loss

For the years ended December 31, 2009 and 2008

	2009	2008
Accumulated other comprehensive loss, beginning of year	\$ (3,638,756)	\$ -
Change in fair value of effective portion of interest rate swap designated as a hedge (note 11)	3,294,877	(3,638,756)
Accumulated other comprehensive loss, end of year	\$ (343,879)	\$ (3,638,756)

See accompanying notes to consolidated financial statements.

PLUTONIC POWER CORPORATION

Consolidated Statements of Cash Flows

For the years ended December 31, 2009 and 2008

	2009	2008
Cash provided by (used in):		
Operating activities:		
Net loss for the year	\$ (19,268,611)	\$ (14,323,907)
Items not affecting cash:		
Amortization expense	68,210	44,391
Share-based compensation	1,413,827	3,035,126
Power project development costs written-off	34,900	287,729
Prepaid guarantee fee amortization	736,293	589,035
Unrealized loss on fair value adjustment of interest rate swaps	6,725,614	3,894,013
	(10,289,767)	(6,473,613)
Changes in non-cash working capital:		
Amounts receivable	594	108,414
GST recoverable	546,019	496,432
Prepaid expenses	179,896	(164,994)
Accounts payable and accrued liabilities	(3,402,540)	8,102,783
Interest and fees payable	331,567	341,039
Due to related parties	-	(16,884)
Adjustment for non-cash working capital relating to power project development costs and property, plant and equipment	2,761,463	(8,234,940)
	(9,872,768)	(5,841,763)
Investing activities:		
Power project development costs	(14,855,416)	(16,095,640)
Property, plant and equipment purchases	(157,533,147)	(66,257,849)
Intangible asset payments	(801,529)	(280,654)
Performance security deposits	(151,458)	(110,000)
Builder's lien holdback deposit account	(8,472,841)	(5,944,543)
Builder's lien holdback payable	8,232,395	6,661,893
Investment in TMGP, net	(18,000,000)	-
	(191,581,996)	(82,026,793)
Financing activities:		
Common shares issued for cash	70,479,800	6,428,471
Share issue costs	(3,856,856)	500
Long-term debt, net of financing fees	160,863,904	69,900,658
Cash restricted for use in construction activities	(40,088,795)	(3,701,671)
Financing provided by joint equity partner of TMGP	-	300,844
	187,398,053	72,928,802
Decrease in cash	(14,056,711)	(14,939,754)
Cash, beginning of year	28,460,631	43,400,385
Cash, end of year	\$ 14,403,920	\$ 28,460,631

Supplementary cash flow information (note 16)

See accompanying notes to consolidated financial statements.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

1. Operations:

Plutonic Power Corporation (the Company) and all of its wholly and partially owned subsidiary companies are incorporated in the Province of British Columbia (BC), Canada. The Company's principal business operations are the identification, development, construction and ultimately, the operation of clean power projects.

In 2007, the Company and its partner GE Energy Financial Services (GE), formed Toba Montrose General Partnership (TMGP), a general partnership formed under the laws of the Province of BC, to own, finance, build and operate the East Toba River and Montrose Creek run-of-river hydro-electric project (Toba Montrose), which is located at the headwaters of the Toba Inlet in BC. Toba Montrose is to include two separate generation facilities and 150 kilometres (km) of transmission line to interconnect the generation facilities to a new BC Transmission Corporation (BCTC) substation at Saltery Bay, BC. These two generation facilities have a combined design capacity of 196 megawatts (MW) and are expected to generate on average 727 gigawatt hours (GWh) of electricity annually net of transmission line losses with completion of construction and commencement of electricity sale to BC Hydro and Power Authority (BC Hydro) scheduled during 2010 under a 35 year Electricity Purchase Agreement (EPA). In 2007, TMGP arranged \$570 million of project debt and equity financing for Toba Montrose. In 2009, the Company contributed \$30 million of required equity in TMGP. The Company is also required to fund its pro-rata share of TMGP project cost overruns, if any.

In 2009, the Company and GE formed Dokie General Partnership (DGP), a general partnership formed under the laws of the Province of BC, to acquire, finance, complete the construction of and operate the 144 MW Dokie Wind Project in conjunction with our First Nations partners, the Halfway River, West Moberly and Sauteau First Nations and McLeod Lake Indian Band. The Company and GE hold a 51% and 49% respective interest in DGP. In December 2009, DGP acquired certain assets related to the Dokie Wind Project from EarthFirst Canada Inc. and third parties. DGP arranged debt financing of \$175 million and the Company and GE contributed \$52.5 million, of which the Company's 51% proportionate contribution was \$26.8 million, of project equity to finance the completion of the Dokie Wind Project. This project is located 1,100 km northeast of Vancouver, near Chetwynd, BC and it will use 48 3-MW wind turbines to generate and sell on average 333 GWh of electricity annually net of transmission line losses. Completion of construction and commencement of electricity sale to BC Hydro is scheduled in early 2011 under a 25 year EPA. The Company and GE also jointly, through another entity, acquired the rights to expand the Dokie Wind Project by an additional 156 MW (Dokie Wind Expansion Project) for a total of 300 MW.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

1. Operations (continued):

In 2008, the Company and GE signed a memorandum of understanding (MOU) to jointly bid the Upper Toba Valley and Bute Inlet run-of-river hydro-electric projects into the BC Hydro 2008 Request for Proposals (BC Hydro 2008 RFP). In March 2010, BC Hydro offered the Company and GE an EPA for a modified Upper Toba Valley Project that now includes two power sites with a combined potential capacity of 124 MW and expected annual generation of 315 GWh of electricity net of transmission line losses. The original proposal included a third power site, which was removed during discussions with BC Hydro because of concerns about capacity constraints on a BCTC transmission line between Saltery Bay and Malaspina. Negotiations with BC Hydro for an EPA on the Bute Inlet Project will not move ahead at this time, in order to allow for further data collection, studies and due diligence. The Company and GE expect to enter into an EPA with BC Hydro for the modified Upper Toba Valley Project by April 1, 2010. With the change in size of the Upper Toba Valley Project, the Company and GE are in discussions on how to proceed with their MOU for the development and construction of the Upper Toba Valley Project.

In 2009, the Company completed a bought deal equity financing co-led by Cormark Securities Inc., GMP Securities L.P. and Macquarie Capital Markets Canada Ltd. pursuant to which the lead underwriters purchased 21 million common shares of the Company at a price of \$3.35 per common share for net proceeds of \$66.5 million. The Company used the net proceeds from this equity financing to fund its \$30.0 million equity commitment in TMGP, its \$26.8 million equity requirement in DGP and the balance is being used for general working capital purposes.

The Company may need to raise additional financing to fund the construction of the Upper Toba Valley Project and the continued development of its other power projects.

2. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements include the accounts of Plutonic Power Corporation and its wholly owned subsidiary companies, Plutonic Hydro Inc., Plutonic TMP Holdings Inc., Upper Toba Hydro Inc., Bute Hydro Inc., Plutonic Dokie Holdings Inc., Plutonic Dokie Expansion Holdings Inc. and Stave Point Holdings Inc. All significant transactions and balances between the Company and its subsidiaries have been eliminated upon consolidation.

The Company accounts for its 40% economic interest in TMGP and its 51% economic interest in DGP using the proportionate consolidation basis as the Company shares joint control over the economic activity of the partnerships. Accordingly, the Company includes in these consolidated financial statements its respective 40% share of TMGP and its 51% share of DGP assets, liabilities, revenue and expenses.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

2. Significant accounting policies (continued):

(b) Adoption of new accounting standards:

Effective January 1, 2009, the Company adopted the new CICA Handbook Section 3064, *Goodwill and Intangible Assets*. This Section replaces CICA Handbook Section 3062, *Goodwill and Intangible Assets* and CICA Handbook Section 3450, *Research and Development Costs*, and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets, and also provides additional guidance with respect to development expenditures.

As a result of the adoption of this standard, certain expenditures incurred that were previously deferred in power project development costs would not have been deferred as they did not meet the criteria for capitalization under the new standard. In accordance with the transition rules, the Company has written off the ineligible costs and has restated the comparative figures. The impact on the December 31, 2008 balance sheet of adopting the standard retroactively has resulted in an increase of \$2.1 million in deficit, an increase of \$0.7 million in deferred gain, a decrease of \$0.9 million in power project development costs, and a decrease of \$0.5 million in intangible assets, as compared to amounts previously reported. There was no impact on the statement of operations for the year ended December 31, 2008 as previously reported.

(c) Use of estimates:

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets, liabilities, and commitments at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting periods. Significant items subject to such management estimates and assumptions include the recoverability of power project development costs, property, plant and equipment, intangible assets, and investments, the determination of the fair value of interest rate swap contracts, share based compensation, the allocation of the purchase price for the Dokie Project, and the determination of future income taxes. Actual results could differ from the estimates and assumptions made in the preparation of these consolidated financial statements.

(d) Cash:

Cash consists of deposits with a senior Canadian bank.

(e) Prepaid guarantee fees:

Prepaid guarantee fees represent the unamortized fair value of warrants issued to an affiliate of GE in connection with a guarantee of the Company's completed \$30 million cash equity contribution to TMGP by the GE affiliate. The prepaid guarantee fee was amortized over the term of the guarantee.

(f) Financial instruments:

All financial assets and liabilities are recognized when the Company becomes a party to the contract creating the item at fair value or, in certain circumstances when fair value may not be considered most relevant, at cost or amortized cost. Changes in the fair value of held for trading financial instruments are recognized in net earnings/loss. Changes in the fair value of interest rate swap contracts are discussed in note 2(l) and changes in the fair value of available for sale financial assets are recorded in other comprehensive income, except as discussed in note 7(d).

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

2. Significant accounting policies (continued):

(f) Financial instruments (continued):

Effective January 1, 2009, the Company has adopted the enhanced disclosure requirements of amended CICA Handbook Section 3862. Refer to note 12 for fair value measurement disclosures using a fair value hierarchy that reflects the significance of the inputs in making the measurements.

(g) Power project development costs:

The Company capitalizes direct costs associated with development of its power projects. Costs associated with successful projects are amortized over the useful life of the projects upon commencement of production. Costs of unsuccessful projects are written off in the period the project is abandoned or when recovery of such costs can no longer be reasonably regarded as assured.

The recovery of power projects development costs is dependent upon the successful completion of the projects or the sale of projects to third parties. The successful completion of the power projects is dependent upon receiving the necessary water, environmental and other licences, being awarded an EPA, obtaining the necessary project financing to successfully complete the development and construction of the projects, and the long-term generation and sale of sufficient electricity on a profitable basis.

(h) Property, plant and equipment:

Computer equipment, office equipment, leasehold improvements and vehicles are recorded at cost. Amortization is recorded using the declining balance method at an annual rate of 30% for computer equipment, 20% for office equipment and 30% for vehicles. Amortization for leasehold improvements is recorded using the straight-line method over the term of the applicable lease.

Electricity generating facilities, transmission lines, and other costs associated with the construction of Toba Montrose and the Dokie Wind Project are carried at cost and consist of direct labour, material and equipment costs, engineering and project development costs and other costs incurred that are incremental and directly attributable to the development and construction of the projects.

Net incremental project financing costs that are directly attributable to the development and construction of the projects are capitalized. The capitalization of net financing costs will cease when Toba Montrose or the Dokie Wind Project are substantially complete and ready for commercial operation.

Property, plant and equipment for Toba Montrose and the Dokie Wind Project will be amortized on a straight line basis over their estimated useful lives, upon commencement of commercial operation.

(i) Intangible assets:

Intangible assets include project permits and licenses, the EPA with BC Hydro, prepaid land tenure license amounts, First Nations Impact Benefits Agreements (IBA) and Memorandums of Understanding (MOU) costs for Toba Montrose and the Dokie Wind Project. Payments made to First Nations under the terms of the IBAs and MOUs are capitalized to intangible assets prior to the commencement of commercial operations, after which time such payments will be expensed in the statement of operations.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

2. Significant accounting policies (continued):

(i) Intangible assets (continued):

TMGP's intangible assets will be amortized upon commencement of commercial operation of Toba Montrose on a straight-line basis over the 35 year term of its EPA, applicable permits, licenses and agreements. DGP's intangible assets will be amortized upon commencement of commercial operation of the Dokie Wind Project on a straight-line basis over the 25 year term of its EPA and agreements.

(j) Impairment of long-lived assets:

Long-lived assets, including investments, power project development costs, property, plant and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. Recoverability of assets is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount that the carrying amount of the asset exceeds its fair value.

(k) Asset retirement obligations:

Asset retirement obligations are recognized in the period in which they are incurred if a reasonable fair value estimate can be determined. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The liability is accreted over the estimated time period until settlement of the obligation and the asset is amortized over the estimated useful life of the asset.

The fair value of the asset retirement obligations for Toba Montrose and the Dokie Wind Project cannot be reasonably estimated due to the long service life of these assets and the low probability that these projects would ever be abandoned due to the renewable nature of the electricity being generated. Accordingly, the Company has made no provision for asset retirement obligations as at December 31, 2009 and 2008.

(l) Interest rate swap contracts:

TMGP uses interest rate swaps to manage its exposure to fluctuations in interest rates on its floating rate credit facility (note 11). The interest rate swap contracts are derivative financial instruments and are recognized on the balance sheet and measured at fair value with changes in fair value recognized in net earnings/loss, except for the effective portion of the interest rate swap contracts designated as a cash flow hedge, which is recognized in accumulated other comprehensive loss.

(m) Income taxes:

The Company follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted income 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 of a change in income tax rates on future tax assets and liabilities is recognized in operations in the year in which the change occurs. A future income tax asset is recorded when the probability of the realization is more likely than not.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

2. Significant accounting policies (continued):

(n) Share-based compensation:

The Company uses the fair value method of accounting for options granted under its stock-based compensation plan. Stock options are measured at the fair value of the consideration received or the fair value of the equity instruments issued whichever is more reliably measurable and are charged to operations over the vesting period. The offset is credited to contributed surplus. Cash received on the exercise of stock options is recorded in share capital and the related compensation included in contributed surplus is transferred to share capital to recognize the total consideration for the common shares issued.

(o) Loss per common share:

Basic loss per common share is calculated by dividing the net loss for the period by the weighted average number of common shares of the Company that were outstanding in the period. Diluted loss per common share includes the potential dilution from common share equivalents, such as stock options and warrants. The treasury stock method is used to calculate potential dilution, whereby any expected proceeds from the exercise of options or other dilutive instruments are assumed to be used for the repurchase of common shares at the average market price during the reporting period.

For the years ended December 31, 2009 and 2008, diluted loss per common share was the same as basic loss per common share as the effect of all outstanding options and warrants would be anti-dilutive.

(p) Comparative figures:

Certain of the comparative year figures have been reclassified to conform to the current year's presentation.

(q) Future changes in accounting standards:

(i) International Financial Reporting Standards:

The CICA has announced it will transition Canadian generally accepted accounting principles (GAAP) for publicly accountable entities to International Financial Reporting Standards (IFRS). The Company's consolidated financial statements are to be prepared in accordance with IFRS for the fiscal year commencing January 1, 2011.

While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences related to recognition, measurement, and disclosures. While the effects of IFRS have not yet been fully determined, the Company has identified a number of key areas which are likely to be impacted by changes in accounting policy, including: financial instruments; the accounting for investments in joint ventures and the deferred gain on transfer of assets; and share-based payment transactions.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

3. Investment in Toba Montrose General Partnership (TMGP):

- (a) In 2007, the Company contributed Toba Montrose and related permits, licences, IBAs with the Klahoose and Sliammon First Nations and its EPA with BC Hydro to TMGP. In return, the Company received and currently holds 51 Class A Units of TMGP, representing a 51% non-participating, voting interest in the partnership and 100 Class B Units of TMGP, which are non-voting and participate in 40% of the distributions of TMGP. After 35 years of operations, the Company's economic interest associated with the Class B Units in TMGP will increase to 51% for no additional consideration and its partner's economic interest in TMGP will decrease from 60% to 49%.

The fair value of the intangible assets contributed by the Company to TMGP was \$36.7 million. The Company included in these consolidated financial statements its proportionate share of the original cost of the assets contributed and deferred the \$16.2 million gain on contribution of these assets. The deferred gain will be amortized over the 35 year life of the BC Hydro EPA beginning in year 2010.

- (b) The Company's economic interest in the assets, liabilities, revenue and expenses and cash flows of TMGP, accounted for under the proportionate consolidation method, are included in these consolidated financial statements as follows:

	2009	2008
Cash	\$ 1,778,234	\$ 687,059
Cash restricted for use in construction activities	3,632,819	11,774,857
GST recoverable	245,863	995,732
Amounts receivable	11,577	33,524
Prepaid expenses	109,049	201,782
Builder's lien holdback deposit account	16,980,220	8,939,298
Performance security deposits	150,000	270,000
Property, plant and equipment	198,614,482	109,696,763
Intangible assets	5,232,310	4,840,782
	226,754,554	137,439,797
Accounts payable and accrued liabilities	4,854,460	7,649,620
Interest and fees payable	750,086	418,519
Builder's lien holdback payable	17,479,112	9,678,636
Long-term debt	151,644,675	77,962,568
Interest rate swap contracts	13,701,612	10,270,875
Non-controlling interest	-	16,116,226
	188,429,945	122,096,444
Net assets	\$ 38,324,609	\$ 15,343,353

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

3. Investment in Toba Montrose General Partnership (continued):

(b) Continued:

	2009	2008
Realized and unrealized loss on interest rate swap contracts	\$ 7,798,067	\$ 4,063,727
Other expenses	232,552	190,798
Share of TMGP net loss	\$ 8,030,619	\$ 4,254,525
Cash flow from operating activities	\$ (1,336,180)	\$ (360,512)
Cash flow from investing activities	(91,010,390)	(65,755,338)
Cash flow from financing activities	81,437,745	66,462,327

Previously, the equity contributions recorded by TMGP were not in the same proportion as the relative economic interests of the Company and GE as at December 31, 2008. The Company had recorded a non-controlling interest of \$16.1 million, which represented the amount by which GE's contributions exceeded its 60% economic interest in the net assets of TMGP. In November 2009 the Company made its \$30.0 million equity contribution to TMGP, resulting in the elimination of this non-controlling interest. No additional units were issued to the Company as a result of making this additional equity contribution.

- (c) GE arranged for an affiliate to provide a \$100 million equity bridge loan facility to TMGP, which was fully drawn in 2008. In accordance with an equity bridge loan agreement between GE and TMGP, GE is contractually obligated to make a cash equity contribution at the earlier of the date of commercial operation of Toba Montrose and October 31, 2010. TMGP will then immediately use the proceeds from GE's equity contribution to repay the principal amount of the Equity Bridge Loan.
- (d) A GE affiliate provided \$28 million of contingent equity and debt service reserve guarantees to TMGP's debt providers. TMGP pays the GE affiliate a 3% per annum fee on the amount of guarantees provided. The Company and GE are required to fund their pro-rata share of project cost overruns, if any. For the year ended December 31, 2009, TMGP paid or accrued \$840,000 of guarantee fees, of which the Company's proportionate share was \$336,000 (2008 - \$840,000 and \$336,000 respectively). The guarantee fees are considered a project financing cost and are capitalized as part of property, plant and equipment.
- (e) A GE affiliate provided an \$11.76 million letter of credit to BC Hydro as part of the EPA performance bonding requirements. TMGP pays the GE affiliate a 3% per annum fee on the face amount of the letter of credit. For the year ended December 31, 2009, TMGP paid or accrued fees of \$352,800, of which the Company's proportionate share was \$141,120 (2008 - \$352,800 and \$141,120 respectively).

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

3. Investment in Toba Montrose General Partnership (continued):

(f) TMGP has the following commitments:

(i) TMGP has a 35 year EPA with BC Hydro to supply all the electricity to be generated from Toba Montrose beginning no later than November 2010 at rates which escalate yearly. Toba Montrose is expected to generate an average of 727 GWh annually, net of transmission line losses. If TMGP is late or unable to commence sale of electricity, it will be subject to penalties under the terms of the EPA.

(ii) In 2007, TMGP received land tenures and water licenses for the project sites, roads and transmission line from the Integrated Land Management Bureau and the British Columbia Ministry of the Environment and Provincial Environmental Certification from the British Columbia Environmental Assessment Office (EAO). The EAO certificate contains a number of commitments that TMGP must adhere to during the construction and operation of Toba Montrose, including mitigation measures to protect wildlife and areas of cultural significance to the Klahoose, Sliammon and Sechelt First Nations.

(iii) Under the provisions of its IBAs with the Klahoose, Sliammon and Sechelt First Nations, TMGP has a number of financial commitments during the construction and operation of Toba Montrose, including periods beyond the 35 year term of the EPA, if TMGP continues operations. These commitments include signing bonuses; construction access fees; continued access fees; project and training opportunities; and revenue sharing.

The obligations of TMGP, except for the Company's proportionate share of the contingent equity and debt service reserve guaranteed by a GE \$28 million letter of credit, are non-recourse to the Company.

(g) In 2009, TMGP and the Government of Canada signed an agreement under the ecoEnergy for Renewable Power program that provides incentive funding to increase Canada's supply of clean electricity from renewable sources, including low-impact hydro projects such as Toba Montrose. Once complete, Toba Montrose is expected to generate and deliver to BC Hydro 727 GWh of electricity annually net of transmission line losses, which will entitle TMGP to receive up to \$72.7 million in funding under the ecoEnergy program during its first ten years of operations based on one cent per kilowatt-hour of electricity generated by Toba Montrose and sold to BC Hydro.

4. Investment in Dokie General Partnership (DGP):

(a) In 2009, the Company contributed \$26.8 million to DGP for 26,775 Class A Units of DGP, representing a 51% participating and voting interest in the partnership. The Company has included in the consolidated financial statements its proportionate share of the partnership.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

4. Investment in Dokie General Partnership (DGP) (continued):

- (b) The Company's 51% interest in the assets, liabilities, revenue and expenses and cash flows of DGP, accounted for under the proportionate consolidation method, are included in these consolidated financial statements as follows:

	2009
Cash	\$ 701,383
Cash restricted for use in construction activities	48,230,833
Amounts receivable	19,260
GST recoverable	238,729
Prepaid expenses	38,609
Performance security deposits	21,458
Builder's lien holdback deposit account	431,919
Property, plant and equipment	64,977,869
Intangible assets	382,500
	115,042,560
Accounts payable and accrued liabilities	589,532
Builder's lien holdback payable	431,919
Long-term debt	87,189,681
	88,211,132
Net assets	\$ 26,831,428
	2009
General and administrative expenses	\$ 28,496
Share of DGP net loss	\$ 28,496
Cash flow from operating activities	\$ (239)
Cash flow from investing activities	(65,024,343)
Cash flow from financing activities	38,950,964

- (c) DGP engaged a financial institution to provide \$13.8 million and \$2.5 million letters of credit to BC Hydro as part of the EPA performance bonding requirements. DGP pays this financial institution a 1% per annum fee on the face amount of the letters of credit. For the period ended December 31, 2009, DGP paid or accrued fees of \$15,857.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

4. Investment in Dokie General Partnership (DGP) (continued):

(d) DGP has the following commitments:

- (i) DGP has a 25 year EPA with BC Hydro to supply all the electricity to be generated by the Dokie Wind Project no later than March 2011 at rates which escalate yearly. The Dokie Wind Project is expected to generate an average of 333 GWh of electricity annually, net of transmission line losses. If DGP is late or unable to commence sale of electricity, it will be subject to penalties under the terms of the EPA.
- (ii) In November 2009, DGP and the Government of Canada signed an agreement under the ecoEnergy for Renewable Power program. Once complete, the Dokie Wind Project is expected to generate 333 GWh of electricity annually net of transmission line losses, which will entitle DGP to receive up to \$33.3 million in funding under the ecoEnergy program during its first ten years of operations based on one cent per kilowatt-hour of electricity generated by the Dokie Wind Project and sold to BC Hydro.

The obligations of DGP are non-recourse to the Company.

5. Prepaid guarantee fee:

In 2007, an affiliate of GE provided a \$30 million guarantee to TMGP's senior debt lenders to support the Company's required \$30 million cash equity contribution. The Company issued to the GE affiliate 650,000 common share purchase warrants, which expired on October 26, 2009. The fair value of the warrants issued to the GE affiliate, as determined using a Black-Scholes pricing model, was \$1,423,500. This amount was recorded as a prepaid guarantee fee and it was amortized over the approximate period of the guarantee until the guarantee was no longer required. Amortization of the prepaid guarantee fee for the year ended December 31, 2009 was \$736,293 (2008 - \$589,035).

	2009	2008
Prepaid guarantee fee	\$ 1,423,500	\$ 1,423,500
Accumulated amortization	(1,423,500)	(687,207)
	\$ -	\$ 736,293

The Company also paid to the GE affiliate a guarantee fee of 3% per annum on the face amount of the guarantee. For the year ended December 31, 2009, the Company paid \$825,000 in cash fees associated with the above guarantee (2008 - \$900,000). The Company had pledged its assets as security against the guarantee with the GE affiliate.

In exchange for providing the guarantee, the Company granted GE a right of first offer with respect to any contemplated project equity financing by an investor of up to an additional 200 MW of hydroelectric projects under development by the Company and contemplated to be bid into the BC Hydro 2008 RFP. In 2008, the Company and GE signed an MOU to jointly bid the Upper Toba Valley and Bute Inlet Projects into the BC Hydro 2008 RFP in November 2008.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

6. Builder's lien holdback deposit accounts:

In 2007, TMGP entered into an Engineering, Procurement, and Construction (EPC) contract with Peter Kiewit Sons Co. (Kiewit) for the construction of Toba Montrose (note 8). In 2009, DGP entered into an EPC contract with Mortenson Canada Corporation (Mortenson) for the construction of the Dokie Wind Project (note 8). These EPC contracts require 10% of construction costs invoiced by Kiewit and Mortenson to be heldback by TMGP and DGP, respectively, for payment upon completion of construction. TMGP and DGP are required to deposit the 10% heldback funds in a builder's lien holdback bank account until it is payable. Funds in the builder's lien holdback account (excluding interest earned) can only be disbursed on or after the 56th day following the issuance of a "certificate of completion" (as such term is defined in the *Builders Lien Act*).

7. Power project development costs:

	Upper Toba Valley Project	Bute Inlet Project	Other Projects	Rainy River & Hope Projects	Total
Balance, December 31, 2007, as previously reported	\$ 1,966,227	\$ 3,261,825	\$ 1,413,042	\$ 3,614,647	\$ 10,255,741
Adoption of new accounting standard (note 2(b))	(516,244)	(129,513)	(244,174)	-	(889,931)
Balance, December 31, 2007, as revised	1,449,983	3,132,312	1,168,868	3,614,647	9,365,810
Engineering and hydrology	1,788,079	8,588,450	1,115,631	2,021	11,494,181
Permitting	1,507,067	3,035,579	631,380	1,513	5,175,539
Community consultations	86,406	756,207	74,419	-	917,032
Financing and tender bid costs	55,322	91,054	11,094	-	157,470
Stock-based compensation	694,819	731,633	-	-	1,426,452
Sale of projects (note 7(d))	-	-	-	(3,618,181)	(3,618,181)
Project development costs written off	-	-	(287,729)	-	(287,729)
Total 2008 Costs	4,131,693	13,202,923	1,544,795	(3,614,647)	15,264,764
Balance, December 31, 2008, as restated	5,581,676	16,335,235	2,713,663	-	24,630,574
Engineering and hydrology	685,891	3,555,083	216,839	-	4,457,813
Permitting	870,468	6,376,524	22,100	-	7,269,092
Community consultations	47,976	1,520,564	1,950	-	1,570,490
Stock-based compensation	159,729	233,286	-	-	393,015
Project development costs written off	-	-	(34,900)	-	(34,900)
Total 2009 Costs	1,764,064	11,685,457	205,989	-	13,655,510
Balance, December 31, 2009	\$ 7,345,740	\$ 28,020,692	\$ 2,919,652	\$ -	\$ 38,286,084

The Company has incurred and capitalized direct costs on 41 run-of-river hydroelectric power development projects, excluding Toba Montrose, located primarily in the southwestern region of BC. 34 of the projects are located within the Company's Green Power Corridor™, an area in southwest coastal BC, which includes drainages flowing into the Toba, Bute and Knight Inlets.

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For the years ended December 31, 2009 and 2008

7. Power project development costs (continued):

In 2008, the Company extended an agreement with Knight Piesold to identify and evaluate potential run-of-river sites through to 2014. The agreement gives the Company a right of first refusal to acquire new projects identified by Knight Piesold and includes a standard non-compete clause to ensure continued interactions between the two companies are free from conflict. The agreement included the issuance of share purchase warrants for the purchase of 100,000 common shares of the Company to Knight Piesold exercisable at a price of \$7.93 per common share until May 13, 2010 and a bonus structure if any of the identified projects become commercially viable.

The Company's principal power projects, besides Toba Montrose and the Dokie Wind Project, which are disclosed in notes 3 and 4, are as follows:

(a) Upper Toba Valley Project:

In 2006, the Company applied for and had applications for water licenses and Crown Land tenure accepted by the Water Stewardship Division, Ministry of the Environment (MOE) and the Integrated Land Management Bureau, Ministry of Agriculture and Lands (ILMB) for these three power sites. The Company then submitted the Upper Toba Valley project to the BC EAO for the construction of three run-of-river generation facilities, to be located on Dalglish Creek, Jimmie Creek and the Upper Toba River.

The Company and GE jointly bid the Upper Toba Valley Project into the BC Hydro 2008 RFP in November 2008.

During 2009, the Company was granted a BC Provincial Environmental Assessment Certificate for the Upper Toba Valley Project. In December 2009, the Canadian Federal Government completed its screening level review under the Canadian Environmental Assessment Act, allowing the Upper Toba Valley Project to proceed.

In March 2010, BC Hydro offered the Company and GE an EPA for a modified Upper Toba Valley Project. The Company and GE modified the Upper Toba Valley Project to include two power sites with a combined design capacity of 124 MW and expected annual electricity generation of 315 GWh net of transmission line losses. This represents a modification from the original bid of 3 power sites combining for 166 MW of capacity. The Dalglish power site was removed from the Company and GE's bid during discussions with BC Hydro to address capacity constraints identified by BCTC on their transmission line between Sallery Bay and Malaspina. The Company and GE expect to enter into an EPA with BC Hydro for the modified Upper Toba Valley Project by April 1, 2010. The Dalglish power site remains a viable project should the BCTC transmission line constraints between Sallery Bay and Malaspina be removed in the future. The three power sites are located on tributaries of the Toba River, close to Toba Montrose, and were added to the Company's portfolio during 2006.

Subject to a priority use agreement, the Company has the right to use any additional unused capacity of the transmission line being built for TMGP for the Company's Upper Toba Valley Project.

(b) Bute Inlet Project:

The Bute Inlet Project consists of 17 power sites, with an estimated combined potential generation capacity of 1,029 MW and potential annual electricity generation of 2,911 GWh. Eight of these 17 sites were added during 2007 and one was added during 2008.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

7. Power project development costs (continued):

(b) Bute Inlet Project (continued):

From 2003 through 2008, the Company applied for and had applications for water licenses and Crown Land tenure accepted by MOE and ILMB for the Bute Inlet power sites.

In 2008, the Company submitted its Bute Inlet Project into the Environmental Assessment Process. The Bute Inlet Project proposal submitted to the BC EAO, the Canadian Environmental Assessment Agency and the Major Projects Management Office is for the construction of 17 run-of-river generating facilities, organized into three interconnected groups. Seven of the facilities are to be located in or near the Homathko River system, seven in the Southgate River system and three in the Orford River system. The BC EAO has issued a Section 10 order that commits the project to an environmental assessment under the Environmental Assessment Act.

In May 2009, the Federal Minister of Environment approved the Environmental Impact Assessment Guidelines for the Bute Inlet Project's Federal environmental assessment process, which will be proceeding by way of panel review. At the same time, the BC EAO issued the Terms of Reference for the Application for an Environmental Assessment Certificate.

Subsequent to December 31, 2009, the Company and GE announced negotiations with BC Hydro for an EPA on the Bute Inlet Project will not move ahead at this time, in order to allow for further data collection, studies and due diligence.

The Company and GE intend to continue with the development of this project, continue to perform hydrological, engineering, environmental baseline and permitting work and are consulting with the communities, First Nations and other stakeholders on this power project.

(c) Other Projects:

The Company has 22 other run-of-river power sites with a combined potential generation capacity of 728 MW and potential annual electricity generation of 2,300 GWh. This includes one power site acquired during 2009 with a potential generation capacity of 22 MW and potential annual electricity generation of 80 GWh. These power sites are located primarily in the southwestern region of BC. The Company continues to collect hydrological data, conduct engineering work and perform other required studies on these power sites.

The Company and GE acquired the rights to the Dokie Wind Expansion Project for an additional 156 MW for a total of 300 MW. The Company and GE's interest in these rights are 51% and 49% respectively. The Dokie Wind Expansion Project has been granted an Environmental Assessment Certificate. Under the direction of GE, a feasibility study has commenced for the Dokie Wind Expansion Project.

(d) Rainy River and Hope Projects:

In 2008, the Company sold the Rainy River and Hope Projects to AltaGas Income Trust (AltaGas). The Company received 180,433 non-transferable, non-participating special warrants of AltaGas which converted to 180,433 trust units of AltaGas on January 1, 2010 with no additional consideration. The Company has estimated the fair value of these special warrants at the time of the transaction to be \$3.6 million.

PLUTONIC POWER CORPORATION

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For the years ended December 31, 2009 and 2008

7. Power project development costs (continued):

(d) Rainy River and Hope Projects (continued):

The special warrants in AltaGas are considered an investment in restricted equity instruments that do not have a quoted market price in an active market and are classified as available for sale. These special warrants are carried at their initial fair value, unless an other than temporary decline in value occurs, in which case these special warrants would then be written down to their new fair value, with the write-down recorded in the statement of operations for the period of the write-down. Upon conversion to participating units of AltaGas on January 1, 2010, the investment will be revalued based on the market price of the units, with gains or losses recorded in other comprehensive income (loss).

8. Property, plant and equipment:

December 31, 2009	Cost	Accumulated amortization	Net book value
Toba Montrose assets under construction	\$ 200,961,061	\$ -	\$ 200,961,061
Dokie assets under construction	66,977,869	-	66,977,869
Computer equipment	185,868	74,004	111,864
Office equipment	131,735	37,144	94,591
Vehicle	10,000	5,835	4,165
Leasehold improvements	23,709	6,992	16,717
	\$ 268,290,242	\$ 123,975	\$ 268,166,267

December 31, 2008	Cost	Accumulated amortization	Net book value
Toba Montrose assets under construction	\$ 109,696,763	\$ -	\$ 109,696,763
Computer equipment	137,539	41,563	95,976
Office equipment	120,792	21,304	99,488
Vehicle	10,000	4,050	5,950
Leasehold improvements	19,103	831	18,272
	\$ 109,984,197	\$ 67,748	\$ 109,916,449

A summary of the Company's proportionate interest in TMGP assets under construction is as follows:

	2009	2008
Engineering, procurement and construction costs	\$ 171,682,092	\$ 96,430,123
EPC issued change orders	2,327,527	356,237
Project construction management costs	6,333,114	3,236,409
Development costs	1,400,000	1,400,000
Construction insurance costs	1,241,990	1,020,395
BCTC interconnection costs	1,115,440	1,110,640
Land lease payments	154,153	106,983
Capital spare parts for use in operations	781,507	-
Capitalized net financing costs	15,925,238	6,035,976
	\$ 200,961,061	\$ 109,696,763

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

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8. Property, plant and equipment (continued):

In 2007, TMGP executed a \$497.5 million fixed-price EPC contract with Kiewit for the construction of Toba Montrose, which includes two powerhouses with weirs, intakes, penstocks, generation equipment, a 150 km transmission line, and related development costs including access roads and bridges. As at December 31, 2009, TMGP had incurred or accrued \$429.2 million under the terms of the EPC contract, of which the Company's proportionate share was \$171.7 million (2008 - \$241.1 million and \$96.4 million respectively).

In 2007, TMGP executed a facilities agreement and a transmission interconnection agreement with BCTC to interconnect the Toba Montrose generation facilities to BCTC's transmission line at Saltery Bay. TMGP is required to fund an estimated total of \$3,310,000 of the interconnection costs as follows:

- \$229,600 on signing (paid in 2007)
- \$1,200,000 by December 31, 2007 (paid in 2007)
- \$1,347,000 by December 31, 2008 (paid in 2008) and
- \$533,400 thereafter upon final reconciliation of costs

As at December 31, 2009, TMGP incurred and capitalized \$33.9 million (2008 - \$15.1 million) in net financing costs directly attributable to the construction of Toba Montrose. The Company's proportionate share of the capitalized net financing costs was \$15.9 million (2008 - \$6.0 million).

A summary of the Company's proportionate interest in DGP assets under construction is as follows:

	2009
Property, plant and equipment	\$ 61,361,260
Engineering, procurement and construction costs	4,319,190
Transformers and generators	231,856
Project construction management costs	199,301
Construction insurance costs	461,150
Capitalized net financing costs	405,112
Total	\$ 66,977,869

On December 10, 2009, DGP executed a \$56.5 million fixed-price EPC contract with Mortenson to complete the construction of the 144 MW Dokie Wind Project, which includes the completion of the installation of wind turbines, generators, transformers, a transmission line, and related construction costs. As at December 31, 2009, DGP had incurred or accrued \$8.5 million under the terms of the EPC contract, of which the Company's proportionate share was \$4.3 million.

In December 2009, DGP entered into various agreements to procure assets for the completion of the Dokie Wind Project. Future commitments for fixed asset purchases as at December 31, 2009 total \$4.2 million, of which the Company's proportionate share was \$2.1 million. These commitments are payable upon satisfaction of certain commissioning conditions and reliability tests.

As at December 31, 2009, DGP had incurred and capitalized \$0.8 million in net financing costs directly attributable to the construction of the Dokie Wind Project. The Company's proportionate interest in the capitalized financing costs was \$0.4 million.

PLUTONIC POWER CORPORATION

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9. Intangible assets:

	2009	2008
Licenses, permits, IBAs, MOUs and EPA Software	\$ 5,593,306 37,022	\$ 4,840,782 -
	\$ 5,630,328	\$ 4,840,782

Toba Montrose's generation and other associated facilities are being built within the traditional territories of the Klahoose First Nation and a significant portion of the transmission line being built linking the generation facilities to BCTC's transmission line is located within the traditional territories of the Sliammon and Sechelt First Nations. TMGP recognizes the traditional territories of the Klahoose, Sliammon and Sechelt First Nations and have signed IBAs with these groups. These agreements were initially obtained by the Company and were contributed to TMGP as part of the Company's initial equity contribution, except for the Sechelt IBA, which was signed by TMGP.

Prepaid land tenure license fees are amounts paid to the BC Government for access to, and use of, the rights-of-way where the transmission line for Toba Montrose are being constructed. The licenses provide access to the rights-of-way for a term that is consistent with the EPA.

Dokie Wind Project's generation facilities and other associated facilities are being built within the traditional territories of the McLeod Lake Indian Band, the Halfway River First Nation, the West Moberly First Nation and the Saulteau First Nation. DGP has MOUs with these four First Nations to facilitate their support of the construction and operation of the Dokie Wind Project. The MOUs include payments and economic development opportunities for these First Nations during the construction and operation of the Dokie Wind Project.

10. Long-term debt:

	2009	2008
The Company's proportionate interest in TMGP's credit facilities (a)		
Fixed rate credit facility	\$ 140,604,675	\$ 77,962,568
Floating rate credit facility	11,040,000	-
	151,644,675	77,962,568
The Company's proportionate interest in DGP's loan (b)	87,189,681	-
	\$ 238,834,356	\$ 77,962,568

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10. Long-term debt:

(a) TMGP's Credit Facilities:

- (i) During 2007, TMGP engaged GE Capital Markets (Canada), Ltd., an affiliate of GE, and the Manufacturers Life Insurance Company to arrange the required debt financing for Toba Montrose. The co-lead arrangers led a syndicate of financial institutions to provide TMGP with \$470 million in credit facilities.

In 2007 the credit agreement was executed and the following facilities were made available to TMGP:

- (a) a \$370 million, 38-year senior secured credit facility with a fixed interest rate, a fixed draw down schedule to correspond with the three-year construction period and a repayment period over the 35-year term of the project's EPA with BC Hydro (the Fixed Rate Facility). The interest rate on this credit facility is 6.288% per annum during the construction period and 6.173% thereafter. The construction period is defined in the credit facility agreement and includes the period through the date of commercial production, and for greater certainty, a period no later than March 1, 2011. As at December 31, 2009, the lenders had funded \$351.5 million under this credit facility, of which the Company's proportionate interest was \$140.6 million (2008 - \$194.9 million and \$78.0 million respectively).
- (b) a \$100 million, 38-year senior secured credit facility with a floating interest rate, flexible draw downs during the three-year construction period and a repayment period over the 35-year term of the project's EPA with BC Hydro (the Floating Rate Facility). GE Canada Asset Financing Holding Company (GE Lender) provides \$50 million (50%) of the Floating Rate Facility. The floating interest rate on this credit facility is based on one month Canadian dollar bankers' acceptance rates during the construction period, and the three month Canadian dollar bankers' acceptance rates thereafter, plus an applicable credit spread in each instance. The credit spread is 1.35% per annum during the construction period and for the first four years thereafter, and 1.60% for the remaining term of the credit facility. As at December 31, 2009, the lenders had funded \$27.6 million under this credit facility, of which the Company's proportionate interest was \$11.0 million (December 31, 2008 – nil).

TMGP pays to its lenders on a monthly basis a commitment fee of 0.375% per annum on the unused portion of the \$470 million total credit facilities.

The Company's proportionate interest in commitment fees and interest payable under the terms of the credit facilities at December 31, 2009 was \$750,086, of which \$12,729 was payable to GE Lender (2008 - \$418,519 and \$6,250 respectively).

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10. Long-term debt (continued):

(ii) Principal repayments:

Principal repayments for both credit facilities are to be made by TMGP annually on the last business day of each fiscal year, commencing on December 31, 2011, based on a fixed repayment schedule, with a final principal payment to be made on June 30, 2045. Interest is paid quarterly throughout the term of the credit facilities. Annual payments of interest and principal for the Fixed Rate Facility average approximately \$26.1 million per annum over the term of repayment, of which the Company's proportionate interest is \$10.4 million. Annual payments of interest and principal for the Floating Rate Facility average approximately \$4.2 million per annum over the term of repayment, of which the Company's proportionate interest is \$1.7 million, based on banker's acceptance rates as at December 31, 2009. The Company's proportionate interest in the minimum principal payments made on the last business day of each of the next five years, assuming a draw down of the entire \$470 million credit facilities, are as follows:

2010	\$	-
2011		1,617,456
2012		1,720,333
2013		1,829,753
2014		1,946,132

Following the completion of construction, TMGP may, at its option and without penalty, prepay the applicable loan facilities in whole or in part. Prepayment of the Fixed Rate Facility is subject to a "make-whole" payment. Prepayment of the Floating Rate Facility is subject to the termination of TMGP's interest rate swap contracts in respect of a principal amount equal to the principal amount prepaid and the payment of any applicable termination amounts on the swap contracts.

(iii) Security pledged:

The two credit facilities are secured by a first charge on all of the property and assets of TMGP. The Company's proportionate share of TMGP's long term debt is non-recourse to the Company.

(iv) Construction escrow account:

In accordance with the terms of the credit facilities, debt is drawn down by TMGP on a specific monthly schedule that commenced in November 2007. The funds are drawn into a restricted escrow construction account. On a monthly basis TMGP applies for funds to be released from the escrow account to pay for construction costs. At December 31, 2009, a total of \$9.1 million (2008 - \$29.4 million) was being held by TMGP in escrow of which the Company's proportionate interest was \$3.6 million (2008 - \$11.8 million).

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10. Long-term debt (continued):

(b) DGP's Loan:

- (i) DGP engaged the Manufacturers Life Insurance Company to arrange the required project debt financing. The arranger led a syndicate of financial institutions to provide DGP with a \$175 million loan. On December 7, 2009 a credit agreement was executed and the \$175 million Construction Loan was funded, of which the Company's proportionate interest is \$89.3 million. At the Term Conversion Date, or the date at which certain conditions have been met, including substantial completion of the Dokie Wind Project, the Construction Loan automatically converts to a Term Loan, at which time it will be subject to certain debt covenants and repayment terms.

The \$175 million loan has a maturity date of the earlier of the 20th anniversary of the Term Conversion Date and expiry of the EPA, which is anticipated to be no earlier than December 31, 2030. The annual interest rate on this loan is fixed at 7.243%. Financing fees of \$4.1 million were incurred to execute the credit agreement, of which the Company's proportionate interest is \$2.1 million. These financing fees are applied against the fair value of the loan and will be accreted to the long-term debt over the period of the loan using the effective interest rate method. As at December 31, 2009, financing fees of \$15,457 have been accreted back to the loan, of which the Company's proportionate interest is \$7,883. There was no interest payable under the terms of the loan at December 31, 2009.

- (ii) Principal repayments:

Principal repayments for the loan are to be made semi-annually until 2030 on the last business day of June and December of each year, commencing on June 30, 2011, based on a fixed repayment schedule, with a final principal payment being made on December 31, 2030. Interest is paid monthly until December 31, 2010 and then is paid quarterly for the remaining term of the loan. Annual payments of interest and principal for the loan average approximately \$16.6 million per annum over the term of repayment, of which the Company's proportionate interest is \$8.5 million. The Company's proportionate interest in the minimum principal payments over the next five years are as follows:

2010	\$	-
2011		1,266,858
2012		2,045,346
2013		2,298,187
2014		2,677,221

DGP may, at its option, prepay the applicable loan in whole or in part.

- (iii) Security pledged:

The loan is secured by demand debentures and a limited recourse guarantee from the Partners and a first charge on all of the property, assets and agreements of DGP.

PLUTONIC POWER CORPORATION

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10. Long-term debt (continued):

(b) DGP's Loan (continued):

(iv) Cash restricted for use in construction activities:

The funds from the equity investment and the loan are held in restricted escrow construction accounts. On a monthly basis DGP applies for funds to be released from the escrow accounts to pay for construction costs. At December 31, 2009, a total of \$94.6 million was being held in escrow, of which the Company's proportionate interest is \$48.2 million, and was invested in short term banker's acceptances at rates of interest ranging from 0.24% to 0.27%.

11. Interest rate swap contracts:

On November 8, 2007, TMGP entered into two interest rate swap contracts that on a combined basis cover the period from November 8, 2007 to June 30, 2045.

The first interest rate swap contract provides for monthly settlements from November 8, 2007 to November 1, 2010 (Short Dated Interest Rate Swap). Pursuant to the interest rate swap agreement, TMGP receives interest on a notional amount at the one month Canadian dollar Bankers Acceptance Rate from the counterparty and pays interest on the notional amount at an interest rate of 4.726% per annum. The notional amount is increased monthly in amounts based on a fixed schedule that was based on estimated drawings to be made on the \$100 million floating rate credit facility (note 10(a)(i)(b)). The notional amount of the swap at December 31, 2009 was \$92.6 million (December 31, 2008 - \$49.0 million) and it increases on a monthly basis to a maximum notional amount of \$100 million beginning on May 1, 2010. TMGP and the counterparty net settle the amount owing on a monthly basis.

The second interest rate swap contract provides for quarterly settlements from November 1, 2010 to June 30, 2045 (Long Dated Interest Rate Swap). Pursuant to the interest rate swap agreement, TMGP will receive interest on a notional amount at the three month Canadian dollar Bankers Acceptance Rate from the counterparty and will pay interest on the notional amount at an interest rate of 5.341% per annum. The notional amount is \$100 million and is reduced in amounts based on the scheduled principal repayments on the \$100 million Floating Rate Facility over the life of the interest rate swap. TMGP and the counterparty net settle the amount owing on a quarterly basis commencing December 31, 2010.

Prior to July 15, 2008, the Company and TMGP had not designated the two interest rate swap contracts as hedges in accordance with CICA Handbook Section 3865, *Hedges*. As such, TMGP and the Company accounted for the interest rate swaps as derivative financial instruments and recorded the fair value of the two interest rate swap contracts on its balance sheet at each period end, with realized and unrealized gains or losses from the change in fair value recorded in the statement of operations.

On July 15, 2008, TMGP designated the Long Dated Interest Rate Swap as an accounting cash flow hedge of the interest on the Floating Rate Facility for the period November 1, 2010 to June 30, 2045. While the fair value of the Long Dated Interest Rate Swap contract continues to be recognized on the balance sheet at each period end, the changes in the fair value of the effective portion of the interest rate swap contract is recorded from July 15, 2008 onwards in other comprehensive income until such time as the gain or loss is realized, at which time the gain or loss is reclassified to net earnings/loss. The changes in the fair value of the ineffective portion of the interest rate swap contract are recorded in the statement of operations.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

11. Interest rate swap contracts (continued):

The Company's proportionate interest in the fair value of the interest rate swap contracts have been reflected in the consolidated financial statements as liabilities as follows:

	2009	2008
Short Dated Interest Rate Swap	\$ 3,561,440	\$ 2,182,527
Long Dated Interest Rate Swap	10,140,172	8,088,348
	13,701,612	10,270,875
<u>Less: Current Portion of Interest Rate Swap Contracts</u>	<u>(4,218,755)</u>	<u>(823,331)</u>
Long-term Portion of Interest Rate Swap Contracts	\$ 9,482,857	\$ 9,447,544

The Company's proportionate interest in the realized and unrealized and losses on the interest rate contracts, and their classification in either the statement of operations or other comprehensive loss, is summarized in the following table:

Period	Statement of Operations		Total	Other
	Realized loss	Unrealized loss		Comprehensive Income
				Unrealized gain (loss)
Short Dated Interest Rate Swap:				
Year ended Dec 31, 2008	\$ (169,714)	\$ (1,856,559)	\$ (2,026,273)	\$ -
Year ended Dec 31, 2009	(1,072,453)	(1,378,913)	(2,451,366)	-
Long Dated Interest Rate Swap:				
Year ended Dec 31, 2008	-	(2,037,454)	(2,037,454)	(3,638,756)
Year ended Dec 31, 2009	-	(5,346,701)	(5,346,701)	3,294,877
Total				
Year ended Dec 31, 2008	\$ (169,714)	\$ (3,894,013)	\$ (4,063,727)	\$ (3,638,756)
Year ended Dec 31, 2009	\$ (1,072,453)	\$ (6,725,614)	\$ (7,798,067)	\$ 3,294,877

In March 2009, after a review of the TMGP Partnership Agreement, GE and the Company agreed to a change in the relative responsibility of the partners for the change in fair value of the two interest rate swap contracts in the case of a termination prior to their maturity by way of an amendment to the TMGP Partnership Agreement. Under the terms of the amended TMGP Partnership Agreement, the impact to the Company is as follows:

- (i) For the TMGP Short Dated Interest Rate Swap contract, which expires in November 2010, the Company is now solely liable for any gains or losses in the event of an early termination of the contract. This also results in the Company being allocated 100% of the unrealized gains and losses from the change in fair value of the TMGP short dated interest rate swap contract until its expiry in November 2010. The Company accordingly recorded an adjustment to reflect the resulting increase in its share of the interest rate swap contract liability and unrealized losses in the statement of operations for the short dated interest rate swap contract.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

11. Interest rate swap contracts (continued):

- (ii) For the TMGP Long Dated Interest Rate Swap contract, which expires in June 2045, the Company will be liable for the first \$13.0 million of any gains or losses in the event of an early termination of the contract. Any gains or losses resulting from the early termination of the contract in excess of \$13.0 million would continue to be allocated 60% to GE and 40% to the Company. This also results in the Company being allocated 100% of the unrealized gains and losses from the change in fair value of the long dated interest rate swap contract from the inception of the long dated interest rate swap up to a maximum of \$13.0 million and 40% of the unrealized gains and losses in excess of \$13.0 million. The Company accordingly recorded an adjustment to reflect the resulting increase in its share in the interest rate swap contract liability in both the statement of operations and other comprehensive loss for the long dated interest rate swap contract.
- (iii) As a result of the amendment, for the year ended December 31, 2009, the Company recorded an additional \$8.0 million of unrealized losses in the statement of operations and recorded an additional \$0.2 million loss in other comprehensive income that would not have been recognized had the amendment not been made. Realized gains or losses through normal monthly or quarterly settlements continue to be allocated 60% to GE and 40% to the Company.

12. Financial instruments:

Financial instrument assets include cash, cash restricted for use in construction activities, performance security deposits and builder's lien holdback deposit accounts which are designated as held-for-trading and measured at fair value, and amounts receivable and GST recoverable which are designated as loans and receivables and measured at amortized cost. The Company's investment in special warrants is classified and measured as disclosed in note 7(d). Financial instrument liabilities include accounts payable and accrued liabilities, interest and fees payable, builder's lien holdbacks payable and long-term debt. All financial liabilities are designated as other liabilities and are measured at amortized cost. Financial instruments of the Company also include the interest rate swap contracts which are derivative financial instruments (note 11).

(a) Fair values of financial instruments:

The carrying values of cash, cash restricted for use in construction activities, performance security deposits, builder's lien holdback account, amounts receivable, GST recoverable, accounts payable and accrued liabilities, and interest and fees payable approximate their fair values due to the relatively short period to maturity of the instruments.

The fair value of the builder's lien holdbacks payable was determined to be \$17.6 million and the carrying value was \$17.9 million on December 31, 2009. The \$0.3 million difference is the result of market interest rates at December 31, 2009.

The fair value of the Company's proportionate interest in the TMGP fixed rate long-term debt was determined to be \$127.6 million and the carrying value was \$140.6 million at December 31, 2009 (December 31, 2008: \$69.1 million and \$78.0 million respectively). The \$13.0 million difference was the result of the market rates at December 31, 2009 being higher than the contractual rates of 6.288% and 6.173% for the construction and operating periods respectively. The fair value of the Company's proportionate interest in the DGP fixed rate long-term debt was determined to be substantially the same as the carrying value of \$171.0 million on December 31, 2009.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

12. Financial instruments (continued):

(a) Fair values of financial instruments (continued):

The interest rate swap contracts are carried at fair value as disclosed in note 11. The fair value measurements at December 31, 2009 and 2008 are based on valuation inputs that are observable directly and indirectly for the contracts, which is consistent with level 2 of the fair value hierarchy. The fair values of the interest rate swap contracts were determined based on valuations obtained from the counter-party and by consultants to TMGP. The counterparty is a major financial institution, HSBC Bank USA.

(b) Derivative financial instruments:

TMGP and the Company use interest rate swap contracts to assist in forward planning for the business as it relates to managing its exposure to fluctuations in interest rates over the 38 year period of the floating rate portion of the long-term credit facilities. TMGP and the Company do not expect any credit losses due to non-performance by the counterparty to the interest rate swap contracts as the counterparty is TMGP's bankers, a major Canadian financial institution.

(c) Financial risk management:

The Company's Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in response to the Company's activities. Through its standards and procedures, management has developed a disciplined and constructive control environment in which all employees understand their roles and obligations. Management regularly monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

The Company has exposure to credit, liquidity and market risks from its use of financial instruments.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and at December 31, 2009 arises mainly from its receivables and its cash, including its restricted cash, performance security deposits and builder's lien holdback deposit accounts. The carrying amount of these assets (approximately \$84.9 million) represents the Company's maximum exposure to credit risk. There has been no significant change to the Company's credit risk from the prior year. The Company only carries amounts receivable due to an arrangement whereby the Company pre-pays for shared costs and is reimbursed for these costs from a third party. The Company does not expect any third parties to fail to meet their obligations, nor has the Company incurred any credit losses on such receivables over the past few years. The Company has no allowance for doubtful accounts at either December 31, 2009 or December 31, 2008.

The Company, TMGP and DGP limit their exposure to credit risk arising from cash by only holding cash with major financial institutions.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

12. Financial instruments (continued):

(c) Financial risk management (continued):

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet obligations associated with financial liabilities and commitments as they become due. The Company manages liquidity risk through the management of its capital structure and financial leverage and also continuously monitors actual and projected cash flows. The Company believes that future cash flows generated through access to equity capital and banking markets and cash flows generated by TMGP and DGP upon commencement of operations of Toba Montrose and the Dokie Wind Project, respectively, will be adequate to meet its financial obligations. The Company's overall liquidity risk has not changed significantly from December 31, 2008.

The following table details the contractual maturities at the balance sheet date of the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payment computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Company can be required to pay.

(\$ thousands of Canadian dollars)	Carrying Amount	Total Contractual Undiscounted Cash Flows	Within 1 Year or on Demand	More than 1 Year but less than 2 Years	More than 2 Years but less than 5 Years	More than 5 Years
The Company's contractual maturities:						
Accounts payable and accrued liabilities	2,585	(2,585)	(2,585)	-	-	-
The Company's proportionate interest in contractual maturities:						
Accounts payable and accrued liabilities	5,444	(5,444)	(5,444)	-	-	-
Interest and fees payable	750	(750)	(750)	-	-	-
Builder's lien holdbacks payable	17,911	(17,911)	(17,479)	(432)	-	-
Long-term debt	238,834	(546,677)	(15,266)	(17,733)	(55,689)	(457,989)
Interest rate swap (net settled)	13,702	(47,816)	(1,880)	(1,959)	(5,776)	(38,201)
Total	279,226	(621,183)	(43,404)	(20,124)	(61,465)	(496,190)

Currency risk

Currency risk is the risk that changes in foreign exchange rates will affect the fair value or future cash flows of the Company's financial instruments. The Company's financial instruments are not exposed to changes in foreign exchange rates.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

12. Financial instruments (continued):

(c) Financial risk management (continued):

Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect the fair value or future cash flows of the Company's financial instruments. The Company is exposed to interest rate risk through its cash and its proportionate share of TMGP's variable rate debt and interest rate swap instruments (note 11).

At December 31, 2009 and December 31, 2008, the Company's interest-bearing financial instrument assets are as follows:

	Carrying amount	
	2009	2008
Cash	\$ 14,403,920	\$ 28,460,631

The Company's proportionate interest in cash restricted for use in construction activities, performance security deposits and builders' lien holdback deposit account are subject to interest rate risk. However, interest income from these investments is currently capitalized to property, plant and equipment as part of the net financing cost of assets under construction and, as such, fluctuations in interest rates for these financial instruments would not have impacted equity or earnings.

Based on the balances as at December 31, 2009, a change of 100 basis points (BPS) in interest rate would have changed equity, interest income and cash by \$0.1 million for the year ended December 31, 2009 (2008 - \$0.3 million).

At December 31, 2009 and December 31, 2008, the Company's interest-bearing financial liabilities are as follows:

	Carrying amount	
	2009	2008
Fixed rate instruments		
TMGP's Fixed rate debt (note 10(a)(i)(a))	\$ (140,604,675)	\$ (77,962,568)
DGP's Fixed rate debt (note 10(b)(i)(a))	(87,189,681)	-

Variable rate instruments

Floating rate debt (note 10(a)(i)(b))	\$ (11,040,000)	\$ -
Interest rate swap contracts (note 11)	(13,701,612)	(10,270,875)

The Company does not account for the fixed rate debt as held for trading. Therefore, a change in interest rates at the reporting date would not affect net earnings or equity with respect to this fixed rate instrument. Interest costs relating to the floating rate debt are capitalized to property, plant and equipment as part of the net financing cost of assets under construction and, as such, fluctuations for these financial instruments would not have impacted equity or earnings.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

12. Financial instruments (continued):

(c) Financial risk management (continued):

For the interest rate swap contracts, a change of 100 BPS in interest rates at the reporting date would have increased (decreased) net earnings and equity by the amounts in the table below. The cash flow sensitivity is based on the amount of the actual interest rate swap contracts outstanding at December 31, 2009. If the amount of the floating rate debt had been drawn and matched the corresponding notional amount under the interest rate swap, the cash flow impact would have been nil. This analysis was performed on the same basis for 2008.

	Comprehensive income increase (decrease)		Equity increase (decrease)	
	100 BPS increase	100 BPS decrease	100 BPS increase	100 BPS decrease
December 31, 2009				
Interest rate swap contracts	\$ 12,666,421	\$ (8,286,639)	\$12,666,421	\$ (8,286,639)
December 31, 2008				
Interest rate swap contracts	\$ 5,089,377	\$ (6,155,306)	\$ 5,089,377	\$ (6,155,306)

At December 31, 2009, approximately \$12.0 million of the increase and \$7.8 million of the decrease in comprehensive income resulting from a 100 BPS change in interest rates would be recorded as part of other comprehensive income, with the remainder being recorded in net earnings/loss. At December 31, 2008, approximately \$1.5 million of the increase and \$1.7 million of the decrease in comprehensive income resulting from a 100 BPS change in interest rates would be recorded as part of net earnings, with the remainder being recorded in other comprehensive income.

(d) Capital structure and management:

The Company's capital structure is comprised of shareholders' equity plus its proportionate share of TMGP's and DGP's long-term debt. The Company's objectives when managing its capital structure are to:

- (i) minimize dilution to existing equity shareholders of the Company in its development and construction of its power projects until the Company can generate sufficient cash flow to finance its growth internally; and
- (ii) maintain financial flexibility in order to preserve the Company's access to capital markets and its ability to maintain its financial obligations.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

12. Financial instruments (continued):

(d) Capital structure and management:

The Company manages its capital structure and makes adjustments according to market conditions to maintain flexibility while achieving the objectives stated above. To manage the capital structure, the Company may adjust the timing of the development of its power projects and/or enter into joint ventures to finance some or all of its project equity requirements.

The Company's capital management objectives have not changed from December 31, 2008. At December 31, 2009 neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements. TMGP will be subject to certain financial covenants in its credit facility agreement once Toba Montrose becomes operational in 2010. DGP will be subject to certain financial covenants in its credit facility agreement after the Term Conversion Date.

13. Share capital:

(a) Authorized

Unlimited common shares without par value

Unlimited preferred shares without par value, issuable in series

(b) Common shares - Issued and outstanding:

	Number of shares	Amount
Balance, December 31, 2007	40,413,993	\$ 64,014,533
Refund of share issue costs	-	500
Issued for cash on exercise of warrants	2,083,860	5,071,001
Issued for cash from exercise of options	1,693,650	1,357,470
Transfer from contributed surplus on exercise of vested options	-	1,462,826
Transfer from contributed surplus on exercise of vested warrants	-	2,210,099
Balance, December 31, 2008	44,191,503	74,116,429
Issued for cash	21,000,000	70,350,000
Share issue costs	-	(3,856,856)
Issued for cash from exercise of options	194,500	129,800
Transfer from contributed surplus on exercise of vested options	-	84,945
Adjustment from fractional rounding	2	-
Balance, December 31, 2009	65,386,005	\$ 140,824,318

In 2009, the Company completed a bought deal equity financing co-led by Cormark Securities Inc., GMP Securities L.P. and Macquarie Capital Markets Canada Ltd. pursuant to which the lead underwriters purchased 21 million common shares of the Company at a price of \$3.35 per common share for net proceeds of \$66.5 million.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

13. Share capital (continued):

(c) Share purchase warrants:

The continuity of share purchase warrants during the year ended December 31, 2009 is as follows:

Expiry date	Exercise price	Balance Dec 31, 2008	Issued	Exercised	Expired	Balance, Dec 31, 2009
October 26, 2009	\$9.03	650,000	-	-	(650,000)	-
May 13, 2010	\$7.93	100,000	-	-	-	100,000
		750,000	-	-	(650,000)	100,000

The continuity of share purchase warrants during the year ended December 31, 2008 is as follows:

Expiry date	Exercise price	Balance Dec 31, 2007	Issued	Exercised	Expired	Balance, Dec 31, 2008
March 28, 2008	\$1.75	46,875	-	(46,875)	-	-
August 29, 2008	\$2.50	1,830,000	-	(1,830,000)	-	-
November 9, 2008	\$2.00	206,985	-	(206,985)	-	-
October 26, 2009	\$9.03	650,000	-	-	-	650,000
May 13, 2010	\$7.93	-	100,000	-	-	100,000
		2,733,860	100,000	(2,083,860)	-	750,000

(d) Stock options:

In 2008, the Company approved a new rolling Incentive Stock Option Plan (Rolling Plan). The Rolling Plan is a "rolling" stock option plan rather than a "fixed number" stock option plan, which provides that the maximum number of options which may be granted under the Rolling Plan will be equal to 10% of the number of common shares of the Company which may be outstanding from time to time. Any exercise of options will make new grants available under the Rolling Plan.

Of the 3,395,550 options outstanding at the time of the Rolling Plan approval, 2,112,250 were transferred to the Rolling Plan and the rest remained subject to the old plan. No further options will be granted under the old plan, which will continue until all options have been exercised, terminated or expired.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

13. Share capital (continued):

(d) Stock options (continued):

The exercise price of stock options is no less than the closing price of common shares on the business day immediately preceding the date on which the option is granted. Under the Rolling plan, options vest over three years, with 1/3 of the grant vesting at the end of the first year, and the remaining 2/3 of the grant vesting on a monthly basis over the remaining 24 months. Options expire no later than five years from the grant date, except that they expire within 60 days when the holder is no longer qualified to hold the option (other than for cause, when the option expires immediately).

Under the old plan, a number of options vest at the rate of 25% on the date of the grant and 25% every six months thereafter, while a number of options vest over three years, with 1/3 of the grant vesting at the end of each completed year from the date of grant.

A summary of share option activity and information concerning outstanding and exercisable options at December 31, 2009 and December 31, 2008 is as follows:

	Options granted	Weighted average exercise price
Balance, December 31, 2007	4,932,150	\$ 2.74
Options granted - approved	1,150,000	7.39
Options exercised	(1,693,650)	0.80
Options cancelled	(90,000)	7.39
Balance, December 31, 2008	4,298,500	4.65
Options granted - approved	1,330,000	2.59
Options exercised	(194,500)	0.67
Options cancelled	(50,000)	4.25
Balance, December 31, 2009	5,384,000	\$ 4.29

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

13. Share capital (continued):

(d) Stock options (continued):

The following table summarizes information concerning outstanding and exercisable options at December 31, 2009:

Grant date	Expiry date	Number outstanding	Weighted average exercise price	Weighted remaining contractual life (in years)	Vested and exercisable	
					Number	Weighted average exercise price
Mar 27, 2006	Mar 26, 2011	100,000	\$0.80	1.24	100,000	\$0.80
June 7, 2006	June 6, 2011	317,000	1.65	1.43	317,000	1.65
July 10, 2006	July 9, 2011	190,000	1.63	1.52	190,000	1.63
July 25, 2006	July 24, 2011	150,000	2.12	1.56	150,000	2.12
Dec 18, 2006	Dec 17, 2011	74,000	2.80	1.96	74,000	2.80
Mar 27, 2007	Mar 26, 2012	350,000	4.20	2.24	350,000	4.20
Mar 28, 2007	Mar 27, 2012	1,253,000	4.25	2.24	1,253,000	4.25
Apr 20, 2007	Apr 19, 2012	230,000	5.28	2.30	230,000	5.28
May 14, 2007	May 13, 2012	100,000	7.28	2.37	100,000	7.28
May 22, 2007	May 21, 2012	150,000	7.30	2.39	100,000	7.30
Jul 11, 2007	Jul 10, 2012	27,500	7.80	2.53	18,333	7.80
Sept 13, 2007	Sept 12, 2012	47,500	6.90	2.70	31,667	6.90
Apr 15, 2008	Apr 14, 2013	885,000	7.70	3.29	491,667	7.70
Sept 8, 2008	Sept 7, 2013	150,000	6.40	3.69	62,500	6.40
Nov 25, 2008	Nov 24, 2013	30,000	2.16	3.90	10,833	2.16
Mar 24, 2009	Mar 23, 2014	830,000	2.10	4.23	-	2.10
Sept 28, 2009	Sept 27, 2014	250,000	3.43	4.74	-	3.43
Oct 1, 2009	Sept 30, 2014	150,000	3.54	4.75	-	3.54
Nov 10, 2009	Nov 9, 2014	100,000	3.15	4.86	-	3.15
		5,384,000	\$4.29	2.90	3,479,000	\$4.45

As at December 31, 2009, there were 1,129,000 options outstanding under the old stock option plan, 4,255,000 under the rolling plan, and 2,283,601 options available for grant under the rolling stock option plan.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

13. Share capital (continued):

(d) Stock options (continued):

The weighted average grant-date fair value of stock options granted during year ended December 31, 2009 was \$1.27 per common share (2008 - \$3.84 per common share). The Company determines the fair value of the options granted using the Black-Scholes option pricing model, recognizing forfeitures as they occur, using the following weighted average assumptions:

	2009	2008
Risk-free interest rate	2.0% to 2.5%	1.5% to 4.0%
Expected life	3.3 to 4.9 years	1.5 to 5.0 years
Expected volatility	58% to 68%	36% to 69%
Expected dividend yield	Nil	Nil

Subsequent to December 31, 2009, the Company granted and approved 928,800 stock options at an exercise price of \$3.46 per common share to employees of the Company and TMGP.

14. Contributed surplus:

Balance, December 31, 2007	\$ 11,495,848
Share-based compensation expense	3,035,126
Fair value of options and warrants capitalized to power project costs	1,426,452
Fair value of options capitalized to property, plant and equipment	57,701
Transfer to share capital on exercise of vested options	(1,462,826)
Transfer to share capital on exercise of warrants	(2,210,099)
Balance, December 31, 2008	12,342,202
Share-based compensation expense	1,413,827
Fair value of options capitalized to power project costs	393,015
Fair value of options capitalized to property, plant and equipment	84,682
Transfer to share capital on exercise of vested options	(84,945)
Balance, December 31, 2009	\$ 14,148,781

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

15. Income taxes:

The significant components of the Company's future income tax assets and liabilities at December 31, 2009 and 2008 are as follows:

	2009	2008
Future income tax assets:		
Loss carry forwards	\$ 12,830,283	\$ 7,282,496
Property, plant and equipment	-	160,442
Eligible capital property	87,606	79,780
Interest rate swap contracts	3,425,403	2,670,428
Deferred gain on transfer of assets	2,023,636	2,014,301
Share issue costs	1,409,734	1,002,558
Total future income tax assets	19,776,662	13,210,005
Future income tax liabilities:		
Power project development costs	(5,308,725)	(2,681,380)
Property, plant and equipment	(752,261)	-
Intangible assets	(866,780)	(1,021,825)
Investment in partnerships	(2,632,577)	(2,874,000)
Total future income tax liabilities	(9,560,343)	(6,577,205)
Net future income tax asset	10,216,319	6,632,800
Valuation allowance	(10,216,319)	(6,632,800)
Net future income tax	\$ -	\$ -

The Company's income tax expense differs from the amounts computed by applying the combined federal and provincial income tax rate of 30.00% (2008 – 31.00%) to pre-tax losses as a result of the following:

	2009	2008
Loss before income taxes	\$ 19,268,611	\$ 14,323,907
Statutory tax rate	30.0%	31.0%
Recovery of income taxes based on statutory income tax rates	\$ 5,780,583	\$ 4,440,411
Increase (decrease):		
Effect of change in valuation allowance	(3,583,519)	(3,197,765)
Effect of non-deductible items	(912,779)	(1,139,628)
Change due to change in statutory tax rate	(255,108)	(130,000)
Tax amounts related to other comprehensive income	(988,463)	-
Other	(40,714)	26,982
Future income tax recovery	\$ -	\$ -

At December 31, 2009, the Company has unrecognized non-capital losses for income tax purposes of approximately \$51.3 million (2008 - \$27.6 million) that may be used to offset future taxable income. These losses, if not utilized, will expire between 2010 and 2029.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

16. Supplemental cash flow information:

	2009	2008
Supplementary information:		
Interest and fees paid	\$ 7,560,054	\$ 2,586,574
Interest received	263,359	1,859,111
Non-cash transactions:		
Fair value of options and warrants capitalized to power project development costs	393,015	1,302,952
Fair value of warrants issued for power project financing	-	123,500
Fair value of options for TMGP employees capitalized to property, plant and equipment	84,682	57,701
Sale of Rainy River and Hope projects for special warrants in AltaGas	-	3,614,647
Accretion of long-term debt capitalized to property, plant and equipment	7,883	-
Cash is comprised of:		
Cash of the Company	\$ 11,924,303	\$ 27,773,572
Company's proportionate interest in cash of TMGP	1,778,234	687,059
Company's proportionate interest in cash of DGP	701,383	-
	\$ 14,403,920	\$ 28,460,631

17. Commitments:

In addition to commitments previously disclosed in notes 3, 4 and 10, the Company's minimum future payments for various maintenance and operational commitments, including its proportionate share of TMGP's and DGP's commitments, are as follows:

2010	\$ 634,271
2011	6,764,913
2012	4,047,776
2013	3,877,802
2014	3,877,802
Thereafter	26,627,018
Total	\$ 45,829,582

18. Subsequent events:

In February 2010, the Company and the Sechelt Indian Band signed a long-term IBA to facilitate the potential development and the terms by which transmission infrastructure will be built within Sechelt traditional territory for future renewable energy projects. The IBA includes revenue sharing provisions, job training and contracting opportunities, environmental considerations, protection of cultural and heritage resources, access understandings, a signing bonus and innovative provisions to ensure future transmission access is effective and fairly managed in Sechelt traditional territories.