

Consolidated Financial Statements
(Expressed in Canadian dollars)

PLUTONIC POWER CORPORATION

Years ended December 31, 2007 and 2006

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 the majority 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”

“Peter G. Wong”

Donald A. McInnes
Chief Executive Officer

Peter G. Wong
Chief Financial Officer

March 3, 2007



KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of Plutonic Power Corporation as at December 31, 2007 and the consolidated statements of operations and comprehensive loss, deficit, accumulated other comprehensive income, cash flows and power project development costs for the year 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 audit.

We conducted our audit 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2006 and for the year then ended were audited by other auditors, who expressed an opinion without reservation on those statements in their report dated April 2, 2007.

Chartered Accountants

Vancouver, Canada

March 3, 2008

PLUTONIC POWER CORPORATION

Consolidated Balance Sheets

December 31, 2007 and 2006

	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 43,400,385	\$ 6,180,193
Accounts receivable	280,363	3,849
GST recoverable	1,705,167	209,909
Interest receivable	3,106	146,694
Marketable securities (note 4)	-	22,500
Prepaid expenses	373,416	89,350
	<u>45,762,437</u>	<u>6,652,495</u>
Cash restricted for use in construction activities (note 10(d))	8,073,186	-
Performance security deposits	160,000	10,160,000
Prepaid guarantee fees (note 5)	1,325,328	-
Builder's lien holdback deposit account (note 6)	2,994,755	-
Power project development costs (note 7)	10,255,741	12,974,499
Property, plant and equipment (note 8)	37,055,397	35,644
Intangible assets (note 9)	5,023,102	-
	<u>\$ 110,649,946</u>	<u>\$ 29,822,638</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,328,533	\$ 2,519,204
Accrued interest and fees payable (note 10)	77,480	93,698
Due to related parties (note 12)	16,884	85,184
	<u>3,422,897</u>	<u>2,698,086</u>
Builder's lien holdback payable (note 6)	3,016,743	-
Long-term debt (note 10)	8,061,910	-
Interest rate swap contracts (note 11)	2,881,176	-
Deferred gain on transfer of assets (note 3)	15,494,626	-
	<u>32,877,352</u>	<u>2,698,086</u>
Non controlling interest (note 3)	15,906,988	-
Shareholders' equity:		
Share capital (note 13)	64,014,533	27,873,654
Contributed surplus (note 14)	11,495,848	2,250,761
Deficit	(13,644,775)	(2,999,863)
	<u>61,865,606</u>	<u>27,124,552</u>
Commitments (note 3)		
Subsequent events (notes 7(e) and 18)		
	<u>\$ 110,649,946</u>	<u>\$ 29,822,638</u>

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

Years ended December 31, 2007 and 2006

	2007	2006
Expenses:		
Amortization	\$ 16,910	\$ 5,944
Consulting	153,932	72,273
Electricity contract cancellation fee (note 7(e))	100,662	-
Guarantee fees (note 5)	228,172	-
Management fees	54,630	364,974
Office	271,341	131,697
Power project development costs written-off	458,287	14,118
Professional fees	172,399	119,687
Project evaluation	117,150	1,116
Rent	214,977	49,678
Salaries	2,409,186	466,718
Share-based compensation (note 13)	3,785,883	446,994
Transfer agent and listing fees	224,956	33,665
Travel and promotion	845,640	278,141
Loss before the undernoted	(9,054,125)	(1,985,005)
Other income (expenses):		
Gain on sale of marketable securities	102,454	-
Interest income	1,187,935	208,188
Loss on fair value adjustment of interest rate swaps (note 11)	(2,881,176)	-
Mineral property costs recovered	-	16,250
	(1,590,787)	224,438
Loss before income tax recovery	(10,644,912)	(1,760,567)
Future income tax recovery (note 16)	-	567,000
Net loss for the year	(10,644,912)	(1,193,567)
Other comprehensive income (loss):		
Unrealized gain on marketable securities	81,454	-
Reclassification of realized gain on sale of marketable securities	(102,454)	-
Comprehensive loss for the year	\$ (10,665,912)	\$ (1,193,567)
Basic and fully diluted loss per share	\$ 0.29	\$ 0.06
Weighted average number of shares outstanding	37,193,968	18,546,374

See accompanying notes to consolidated financial statements.

PLUTONIC POWER CORPORATION

Consolidated Statements of Deficit

Years ended December 31, 2007 and 2006

	2007	2006
Deficit, beginning of year	\$ (2,999,863)	\$ (1,806,296)
Net loss for the year	(10,644,912)	(1,193,567)
Deficit, end of year	\$ (13,644,775)	\$ (2,999,863)

Statements of Accumulated Other Comprehensive Income

Years ended December 31, 2007 and 2006

	2007	2006
Accumulated other comprehensive income, beginning of year	\$ -	\$ -
Transition adjustment on adoption of financial instrument standards (note 2(b))	21,000	-
Unrealized gain on marketable securities	81,454	-
Reclassification of realized gain on sale of marketable securities	(102,454)	-
Accumulated other comprehensive income, end of year	\$ -	\$ -

See accompanying notes to consolidated financial statements.

PLUTONIC POWER CORPORATION

Consolidated Statements of Cash Flows

Years ended December 31, 2007 and 2006

	2007	2006
Cash provided by (used in):		
Operating activities:		
Net loss for the year	\$ (10,644,912)	\$ (1,193,567)
Items not affecting cash:		
Amortization expense	16,910	5,944
Loss on disposal of property, plant and equipment	1,223	-
Share-based compensation expense	3,785,883	446,994
Share-based compensation expense for consultants	96,540	-
Gain on sale of marketable securities	(102,454)	-
Power project development costs written-off	458,287	14,118
Prepaid guarantee fee amortization	98,172	-
Loss on fair value adjustment of interest rate swaps	2,881,176	-
Mineral property costs recovered	-	(16,250)
Future income tax recovery	-	(567,000)
	(3,409,175)	(1,309,761)
Changes in non-cash working capital:		
Accounts receivable and GST recoverable	(1,771,772)	(69,333)
Interest receivable	143,588	(146,694)
Prepaid expenses	5,940	(85,850)
Accounts payable and accrued liabilities	809,329	1,898,251
Accrued interest and fees payable	(16,218)	-
Due to related parties	(68,300)	17,352
Adjustment for: non-cash working capital relating to power project development costs and property, plant and equipment	87,042	(1,842,948)
	(4,219,566)	(1,538,983)
Investing activities:		
Power project development costs	(34,603,903)	(5,992,549)
Power project development costs recovered from TMGP	31,394,065	-
Property, plant and equipment and intangibles –		
East Toba and Montrose assets under construction	(24,637,135)	-
Property, plant and equipment - purchase of office equipment	(149,272)	(37,082)
Performance security deposits	10,000,000	(10,160,000)
Builder's lien holdback deposit account	(2,994,755)	-
Builder's lien holdback payable	3,016,743	-
Proceeds from sale of marketable securities	124,954	-
Proceeds from sale of office equipment	63,221	-
	(17,786,082)	(16,189,631)
Financing activities:		
Common shares issued for cash	36,005,083	25,374,200
Share issue costs	(1,900,720)	(1,485,588)
Long-term debt	8,061,910	-
Cash restricted for use in construction activities	(8,073,186)	-
Short term loan issuance	-	9,700,000
Short term loan repayment	-	(9,700,000)
Financing provided by joint equity partner of TMGP	25,132,753	-
	59,225,840	23,888,612
Increase in cash	37,220,192	6,159,998
Cash, beginning of year	6,180,193	20,195
Cash, end of year	\$ 43,400,385	\$ 6,180,193

Supplementary cash flow information (note 17)

See accompanying notes to consolidated financial statements.

PLUTONIC POWER CORPORATION

Consolidated Statements of Power Project Development Costs

Years ended December 31, 2007 and 2006

	East Toba/ Montrose	Upper Toba Valley	Bute Inlet projects	Knight Inlet projects	Other projects	Rainy River & Hope projects	Total
Balance, December 31, 2005	\$ 1,899,476	\$ 516,244	\$ 218,127	\$ 35,069	\$ 184,815	\$ 984,961	\$ 3,838,692
Engineering and hydrology	2,297,078	60,723	79,643	44,934	83,078	409,197	2,974,653
Permitting	263,096	39,900	-	40,766	21,486	31,897	397,145
Community relations	789,763	-	-	511	-	48,685	838,959
Tender bid costs	137,721	-	-	-	-	56,445	194,166
Financing costs	402,959	-	-	-	-	20,587	423,546
Contract costs:							
Salaries	859,505	-	-	-	-	-	859,505
Equipment and supplies	293,595	-	-	-	-	-	293,595
Transportation	392,476	-	-	-	-	-	392,476
Engineering	385,442	-	-	-	-	-	385,442
Administrative and other	74,708	-	-	-	-	-	74,708
Stock-based compensation	66,000	-	-	-	-	-	66,000
Fair value of warrants issued for financing costs	1,072,640	-	-	-	-	82,090	1,154,730
Consulting costs settlement accrual	547,500	-	-	-	-	547,500	1,095,000
Project development costs written off	-	-	-	-	(14,118)	-	(14,118)
Balance, December 31, 2006	9,481,959	616,867	297,770	121,280	275,261	2,181,362	12,974,499
Engineering and hydrology	3,010,067	743,104	2,246,900	193,879	201,630	661,826	7,057,406
Permitting	2,115,464	511,958	774,771	51,872	111,125	223,729	3,788,919
Community relations	1,231,891	8,725	185,754	4,072	1,153	25,871	1,457,466
Financing and tender bid costs	3,661,998	1,993	9,619	1,323	167	58,272	3,733,372
Contract costs:							
Salaries	4,148,212	-	-	-	-	-	4,148,212
Equipment and supplies	10,110,902	-	-	-	-	-	10,110,902
Transportation	2,596,270	-	-	-	-	-	2,596,270
Engineering	1,309,955	-	-	-	-	-	1,309,955
Administrative and other	822,702	10,500	45,500	10,500	3,500	-	892,702
Stock-based compensation	2,864,933	73,080	178,935	-	-	783,063	3,900,011
Fair value of warrants issued for financing costs	848,253	-	-	-	-	64,917	913,170
Consulting cost settled in shares	581,250	-	-	-	-	581,250	1,162,500
Less: prior year accrual	(547,500)	-	-	-	-	(547,500)	(1,095,000)
Project development costs written off	-	-	-	-	(40,144)	(418,143)	(458,287)
Recovery of costs from TMGP	(31,394,065)	-	-	-	-	-	(31,394,065)
Transfer to investment in TMGP	(10,842,291)	-	-	-	-	-	(10,842,291)
Balance, December 31, 2007	\$ -	\$ 1,966,227	\$ 3,739,249	\$ 382,926	\$ 552,692	\$ 3,614,647	\$ 10,255,741

See accompanying notes to consolidated financial statements.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

Year ended December 31, 2007 and 2006

1. Operations:

Plutonic Power Corporation, its wholly owned subsidiary companies, Plutonic Hydro Inc., Plutonic TMP Holdings Inc. and Upper Toba Hydro Inc. (collectively the Company) are incorporated in the Province of British Columbia, Canada. The Company's principal business operations are the identification, development, construction and ultimately, the operation of economically viable clean power projects.

On June 27, 2007, the Company and its partner GE Energy Financial Services Holding Company (GE), formed Toba Montrose General Partnership (TMGP), a general partnership formed under the laws of the Province of British Columbia, to finance, build and operate the East Toba and Montrose run-of-river power projects, which are located at the headwaters of the Toba Inlet in British Columbia. The projects include separate generation facilities and a related 150 km transmission line to interconnect the generation facilities to the British Columbia Transmission Corporation's substation at Saltery Bay, British Columbia. These two generation facilities are to have a combined capacity of 196 megawatts (MW) and are expected to generate on average 745 gigawatt hours (GWh) of electricity annually with completion of construction and commencement of electricity sale to British Columbia Hydro and Power Authority (BC Hydro) in 2010 under a 35 year Electricity Purchase Agreement (EPA).

2. Significant accounting policies:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following 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. and Upper Toba Hydro 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 using the proportionate consolidation basis. Accordingly, the Company includes in these financial statements its 40% share of the assets, liabilities, revenue and expenses of TMGP.

(b) Adoption of new accounting standards:

Effective January 1, 2007, the Company adopted five new Canadian Institute of Chartered Accountants (CICA) accounting standards: (i) Handbook Section 1530, *Comprehensive Income*; (ii) Handbook Section 3855, *Financial Instruments - Recognition and Measurement*; (iii) Handbook Section 3861 *Financial Instruments - Disclosure and Presentation*; (iv) Handbook Section 3865, *Hedges*; and (v) Handbook Section 1506, *Accounting Changes*. The main requirements of these new standards and the resulting financial statement impact are described below.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

Years ended December 31, 2007 and 2006

2. Significant accounting policies (continued):

(b) Adoption of new accounting standards (continued):

(i) Comprehensive Income (Section 1530):

CICA Section 1530 introduces the term *Comprehensive Income*, which consists of net earnings and other comprehensive income (OCI). OCI represents changes in shareholders' equity during the period arising from transactions and other events with non-owner sources. As a result of adopting this standard, a new statement of comprehensive income now forms part of the Company's consolidated financial statements which includes the current period net loss and OCI.

Cumulative changes in OCI are included in accumulated other comprehensive income, which is presented as a category of shareholders' equity in the balance sheet.

(ii) Financial Instruments - Recognition and Measurement (Section 3855):

CICA Section 3855 sets out criteria for the recognition and measurement of financial instruments and requires all financial instruments within its scope, including derivatives, to be included on the balance sheet and measured either at fair value or, in certain circumstances when fair value may not be considered most relevant, at cost or amortized cost. Changes in fair value are to be recognized in either net earnings or OCI.

All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the item. As such, any of the Company's outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if these requirements had always been in effect. Any changes to the carrying values of assets and liabilities prior to January 1, 2007 are recognized by adjusting opening deficit or opening accumulated other comprehensive income.

As a result of the adoption of this standard, the Company's marketable securities have been classified as available for sale and as such at January 1, 2007 were revalued from their carrying cost of \$22,500 to their fair value of \$43,500, with the \$21,000 unrealized gain being recorded as a transition adjustment for accumulated other comprehensive income. Subsequent to January 1, 2007, these financial instruments are revalued at each period end to fair market value.

(iii) Financial Instruments - Disclosure and Presentation (Section 3861):

CICA Section 3861 sets out standards which address the presentation of financial instruments and non-financial derivatives, and identifies the related information that should be disclosed. These standards also revise the requirements for entities to provide accounting policy disclosures, including disclosure of the criteria for designating as held-for-trading those financial assets or liabilities that are not required to be classified as held-for-trading; whether categories of normal purchases and sales of financial assets are accounted for at trade date or settlement date; the accounting policy for transaction costs on financial assets and financial liabilities classified as other than held-for-trading; and provide several new requirements for disclosure about fair value.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

Years ended December 31, 2007 and 2006

2. Significant accounting policies (continued):

(b) Adoption of new accounting standards (continued):

(iv) Hedging (Section 3865):

CICA Section 3865 specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company currently does not hold any financial instruments designated for hedge accounting.

(v) Accounting Changes (Section 1506):

CICA Section 1506 revised the standards on changes in accounting policy, estimates or errors to require a change in accounting policy to be applied retrospectively (unless doing so is impracticable), changes in estimates to be recorded prospectively, and prior period errors to be corrected retrospectively. Voluntary changes in accounting policy are allowed only when they result in financial statements that provide reliable and more relevant information. In addition, these revised standards call for enhanced disclosures about the effects of changes in accounting policies, estimates, and errors on the financial statements. The impact of this new standard cannot be determined until such time that the Company makes a change in accounting policy, other than the changes resulting from the implementation of the new CICA Handbook standards previously discussed in this note.

(c) Use of estimates:

The preparation of 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 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 and intangible assets, the determination of the fair value of interest rate swaps and the determination of future income taxes. Actual results could differ from the estimates and assumptions made in the preparation of these financial statements.

(d) Cash and cash equivalents:

Deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less when acquired are classified as cash and cash equivalents.

(e) Prepaid guarantee fees:

Prepaid guarantee fees represent the fair value of warrants issued to an affiliate of GE in connection with a guarantee of the Company's remaining \$30 million cash equity contribution to TMGP by the GE affiliate. The prepaid guarantee fee is being amortized over the term of the guarantee, which is estimated to be 29 months.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

Years ended December 31, 2007 and 2006

2. Significant accounting policies (continued):

(f) Power project development costs:

The Company capitalizes direct costs associated with development of its power projects. Costs associated with successful projects are reclassified as property, plant and equipment and amortized over the useful life of the projects. Costs of unsuccessful projects are written off in the year 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 and other licences, attaining an EPA, obtaining the necessary financing to successfully complete the development and construction of the projects, and ultimately the generation and sale of sufficient electrical power on a profitable basis.

(g) Property, plant and equipment:

Computer equipment, office equipment 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.

Generating plants, transmission lines, and other costs associated with the construction of the East Toba and Montrose projects are carried at cost which consists of direct labour, material and equipment costs, engineering and project development costs and administrative costs incurred that are incremental and directly attributable to the construction and development of the projects.

Net financing costs incurred that are incremental and directly attributable to the development and construction of the projects are capitalized. The capitalization of financing costs will cease when the East Toba and Montrose projects are substantially complete and ready for commercial operation.

These assets will be amortized on a straight line basis over their estimated useful lives, upon commencement of commercial operations.

(h) Intangible assets:

Intangible assets relate to the East Toba and Montrose projects and include the required project permits and licenses, the EPA with BC Hydro, prepaid land tenure license amounts and Impact Benefits Agreements (IBA) with First Nations. Payments made to First Nations under the terms of the IBA's are capitalized to intangible assets prior to the commencement of commercial operations, after which time annual payments will be expensed in the statement of operations.

These intangible assets are to be amortized upon commencement of commercial operation of the East Toba and Montrose projects on a straight-line basis over the terms of the applicable permits, licenses and agreements, which are 35 years.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

Years ended December 31, 2007 and 2006

2. Significant accounting policies (continued):

(i) Impairment of long-lived assets:

Long-lived assets, including 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 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.

(j) Asset retirement obligations:

Asset retirement obligations are recognized in the period in which they are incurred if a reasonable estimate of fair value 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 the East Toba and Montrose facilities cannot be reasonably estimated due to the long service life of these assets and the low probability that these sites would ever be abandoned due to the renewable nature of the electrical energy being generated. Accordingly, no provision has been made for an asset retirement obligation as at December 31, 2007.

(k) Interest rate swap contracts:

TMGP uses interest rate swaps to manage its exposure to fluctuations in interest rates on its floating rate debt facility (note 11). The interest rate swap contracts are derivative financial instruments that have not been designated as hedges for accounting purposes and thus are recognized in the balance sheet and measured at fair value, with changes in fair value recognized currently in the statement of operations.

(l) 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

Years ended December 31, 2007 and 2006

2. Significant accounting policies (continued):

(m) 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 shares issued.

(n) Loss per share:

Basic loss per 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 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 year.

For the years ended December 31, 2007 and 2006, diluted loss per share is the same as basic loss per share as the effect of all outstanding options and warrants would be anti-dilutive.

(o) Comparative figures:

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

(p) Future changes in accounting standards:

On December 1, 2006, the CICA issued three new accounting standards applicable to the Company: Handbook Section 1535, *Capital Disclosures* (Section 1535), Handbook Section 3862, *Financial Instruments - Disclosures* (Section 3862) and Handbook Section 3863, *Financial Instruments - Presentation* (Section 3863). These new standards become effective for the Company on January 1, 2008.

Section 1535 specifies the disclosure of: (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and, (iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 replace Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*, revising its disclosure requirements, and carrying forward its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

The Company is currently evaluating the implications of the adoption of these new standards.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

Years ended December 31, 2007 and 2006

3. Investment in Toba Montrose General Partnership:

- (a) On October 26, 2007, the Company contributed the East Toba and Montrose projects and associated permits, licences, IBA's with the Klahoose and Sliammon First Nations and its EPA with BC Hydro to TMGP. Following the contribution, the Company received and 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% and its partner's economic interest in TMGP will decrease from 60% to 49%.

The estimated fair value of the intangible assets contributed by the Company to the Partnership was \$36.7 million. The Company has included in the consolidated financial statements its proportionate share of the original cost of the assets contributed and has deferred the \$15.5 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 2010.

- (b) The Company's 40% economic interest in the assets, liabilities, revenue and expenses and cash flows of TMGP included in these consolidated financial statements are as follows:

	2007
Cash	\$ 340,582
Cash restricted for use in construction activities	8,073,186
GST recoverable	743,297
Other current assets	300,467
Performance security deposits	160,000
Builder's lien holdback deposit account	2,994,755
Property, plant and equipment	36,951,835
Intangible assets	5,023,102
	54,587,224
Accounts payable and accrued liabilities	1,080,580
Accrued interest and fees payable	77,480
Builder's lien holdback payable	3,016,743
Interest rate swap contracts	2,881,176
Long-term debt	8,061,910
Non-controlling interest	15,906,988
	31,024,877
Net assets	\$ 23,562,347
Loss on fair value adjustment of interest rate swaps	\$ 2,881,176
Other expenses	15,789
Share of TMGP net loss	\$ 2,896,965
Cash flows from operating activities	\$ (5,789)
Cash flows from investing activities	(37,622,778)
Cash flows from financing activities	37,969,148

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

Years ended December 31, 2007 and 2006

3. Investment in Toba Montrose General Partnership:

(b) Continued:

As the equity contributions recorded by TMGP are not in the same proportion as the relative economic interests of Plutonic and GE as at December 31, 2007, a non-controlling interest of \$15.9 million has been recorded which represents the amount by which GE's contributions have exceeded their 60% economic interest in the net assets of TMGP.

- (c) The Company is also required to contribute a further \$30 million in cash equity to TMGP on or before the earlier of the date TMGP's \$470 million senior debt facilities becomes fully drawn and November 1, 2010. The Company's cash equity contribution has been guaranteed to the senior debt facilities lenders by an affiliate of GE (note 5).
- (d) GE arranged for an affiliate to provide a \$100 million equity bridge loan facility to TMGP. In accordance with a subscription agreement between GE and TMGP, GE is contractually obligated to make a cash equity contribution whenever all or any portion of the principal amount under the equity bridge facility becomes due or payable (whether by mandatory prepayment, on maturity, by acceleration or otherwise). TMGP pays interest and fees to the GE affiliate on the equity bridge loan with a cumulative maximum amount of \$15 million being payable during construction. As at December 31, 2007, TMGP had incurred \$1.4 million in interest and fees with respect to the equity bridge facility.
- (e) A GE affiliate has provided \$28 million of contingent equity and debt service reserve guarantees to the TMGP's debt providers. TMGP pays to the GE affiliate a 3% per annum fee on the amount of guarantees provided. If required, the Company and GE would be required to fund their pro-rata share of project cost overruns, if any. To December 31, 2007, TMGP has paid or accrued fees of \$121,333 in relation to this guarantee, of which the Company's proportionate interest is \$48,533.
- (f) A GE affiliate has 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. To December 31, 2007, TMGP has paid or accrued fees of \$50,960 in relation to the fee associated with this letter of credit, of which the Company's proportionate interest is \$20,384.
- (g) TMGP has the following commitments:
- (i) TMGP has an EPA with BC Hydro to supply 745 GWh of electricity annually for 35 years at fixed rates which escalate yearly. A GE affiliate, on behalf of TMGP, has posted a required \$11.76 million stand-by letter of credit to support performance bonding requirements of BC Hydro. If TMGP is late or unable to commence sale of electricity, it will be subject to penalties under the terms of the EPA.
- (ii) TMGP has been granted 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. Provincial Environmental Certification from the British Columbia Environmental Assessment Office (EAO) was received in April 2007. The EAO certificate contains a number of commitments that TMGP must implement throughout various phases of the project, including mitigation measures to protect wildlife and areas of cultural significance to the Klahoose, Sliammon and Sechelt First Nations.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

Years ended December 31, 2007 and 2006

3. Investment in Toba Montrose General Partnership:

(g) TMGP has the following commitments (continued):

(iii) TMGP has a number of financial commitments over the life of the project, including periods beyond the 35 year term of the EPA, under the provisions of its IBA's with the Klahoose, Sliammon and Sechelt (note 18) First Nations. These commitments include signing bonuses; construction access fees; continued access fees; project and training opportunities; and royalty payments.

The obligations of TMGP, except for the cost overrun and debt reserve guaranteed by the \$28 million letter of credit and the guarantee of Plutonic's \$30 million cash equity contribution, are non-recourse to the partners of TMGP.

4. Marketable securities:

Marketable securities consisted of common shares of a public company.

	2007		2006	
	Cost	Market value	Cost	Market value
Marketable securities	\$ -	\$ -	\$ 22,500	\$ 43,500

Upon the adoption of the new CICA Handbook standards related to financial instruments (note 2(b)), the Company designated its marketable securities as available for sale, and as such, at January 1, 2007 the carrying value was adjusted to market value. The marketable securities were reported at cost at December 31, 2006. During the year ended December 31, 2007, the marketable securities were sold and a gain of \$102,454 was realized.

5. Prepaid guarantee fees:

An affiliate of GE has provided a \$30 million guarantee to TMGP's senior debt lenders to support the Company's required \$30 million cash equity contribution (note 3(c)). In exchange for providing the guarantee, the Company has granted GE a right of first offer with respect to any contemplated 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 Call for Tenders. The Company also pays the GE affiliate a guarantee fee of 3% per annum on the face amount of the guarantee and issued to the GE affiliate 650,000 common share purchase warrants, with each warrant entitling the holder to purchase one common share of the Company at a price of \$9.03 per common share until October 26, 2009.

The Company has paid or accrued \$130,000 in fees associated with the above guarantee as at December 31, 2007. 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 has been recorded as a prepaid guarantee fee and it is being amortized over the estimated 29 month period of the guarantee. Amortization to December 31, 2007 was \$98,172.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

Years ended December 31, 2007 and 2006

6. Builder's lien holdback deposit account:

In accordance with the terms of the Engineering, Procurement, and Construction (EPC) contract with Peter Kiewit Sons Co. (Kiewit) that TMGP has entered into (note 8) for the construction of the East Toba and Montrose projects, payment of 10% of construction costs invoiced are heldback by TMGP for payment only upon completion of construction. TMGP is required to deposit funds in a builder's lien holdback bank account to fund the eventual payment of the amount held back over the course of the construction period. Funds in the builders lien holdback account (other than interest accrued) 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:

The Company has incurred and capitalized direct costs on 34 run-of-river hydroelectric power development projects located primarily in the southwestern region of British Columbia. 27 of the sites are located within the Company's green power corridor, located in the headwaters of the Toba, Bute and Knight Inlets, northeast of Powell River, British Columbia. During 2007, the East Toba River and Montrose Creek projects were transferred to TMGP (note 3).

In connection with the purchase of Plutonic Hydro Inc. in 2003, the Company is required to pay a one-time bonus within 30 days of the later of securing construction financing and the commencement of construction for power projects acquired from and identified subsequently by the vendor of Plutonic Hydro Inc. The bonus, payable in shares or cash at the Company's option, is to be calculated as \$1,000 per GWh of energy per year to be generated on each of these power projects. During 2007, the Company elected to pay in cash the required bonus of \$745,000 for the combined East Toba and Montrose project to the vendor.

The Company's principal power projects are as follows:

(a) East Toba and Montrose Power Project - Green Power Corridor:

As discussed in note 3, the Company contributed the East Toba and Montrose projects to TMGP on October 26, 2007 and now proportionately consolidates its 40% economic interest in TMGP. Prior to the contribution of the projects to TMGP, the Company recorded all costs associated with the development of the projects as power project development costs.

In November 2007, TMGP reimbursed the Company \$31.4 million which related to project costs funded by the Company prior to the formation of TMGP and the completion of required project financing. The project costs reimbursed by TMGP included \$20.8 million related to costs incurred under limited notice to proceed EPC work orders, \$3.5 million for project development costs, \$2.8 million in project financing, \$1.5 million in insurance costs, \$1.0 million in land tenure license and lease payments, \$0.9 million in project management costs, \$0.8 million in First Nations payments, and \$0.6 million in payments related to BCTC interconnection costs and other expenditures.

(b) Upper Toba Valley - Green Power Corridor:

The Upper Toba Valley area, with 3 power sites, is estimated to have a combined potential capacity of 120 MW and potential annual electricity generation of 466 GWh. These 3 sites are located near the headwaters of Toba Inlet, approximately 100 km north of Powell River, British Columbia.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

Years ended December 31, 2007 and 2006

7. Power projects (continued):

(b) Upper Toba Valley - Green Power Corridor (continued):

During 2007, the Company successfully completed Stages 1 and 2 towards securing a Water License and Crown Land rights from the Integrated Land Management Bureau (Ministry of Agriculture and Lands) and the Water Stewardship Division (Ministry of the Environment) for these three power sites.

The Company submitted the Upper Toba Valley project to the British Columbia Environmental Assessment Office (EAO) for the construction of three run-of-river generation facilities, one each of which is located on Dalgleish Creek, Jimmie Creek and the Upper Toba River. The EAO issued a Section 10 order that binds the Upper Toba Valley project to the Environmental Assessment Act and a Section 11 order that sets the process the environmental assessment must follow. The Company intends to complete the permitting for the Upper Toba Valley project in early 2009.

The Company is conducting hydrological, engineering, environmental and permitting work on these power projects with the intention of entering them into the next BC Hydro Call for Tender which is anticipated to be formally unveiled by BC Hydro during 2008.

The Company has the right to use any additional unused capacity of the transmission line being built for TMGP for the Company's wholly owned three additional Upper Toba Valley sites which have an estimated total generation capacity of 120 MW.

As a provision in the IBA with the Klahoose First Nation, in the event the Company obtains an EPA for the Upper Toba Valley project, the Klahoose First Nation will extend their support for the development of the project.

(c) Bute Inlet projects - Green Power Corridor:

The Bute Inlet area encompassing 18 power sites have an estimated combined potential capacity of 912 MW and potential annual electricity generation of 2,979 GWh. 9 of these 18 sites were added during 2007.

The Company successfully completed Stages 1 and 2 towards securing a Water License and Crown Land rights from the Integrated Land Management Bureau (Ministry of Agriculture and Lands) and the Water Stewardship Division (Ministry of the Environment) for all of the new power sites added in 2007.

The Company is conducting hydrological, engineering, environmental and permitting work and is consulting with the communities, First Nations and other stakeholders on these power projects with the intention to enter a number or all of these power projects into the next BC Hydro Call for Tender which is anticipated to be formally unveiled by BC Hydro during 2008.

(d) Knight Inlet projects - Green Power Corridor:

The Knight Inlet area, with 3 power sites, has an estimated combined potential capacity of 152 MW and potential annual electricity generation of 451 GWh.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

Years ended December 31, 2007 and 2006

7. Power projects (continued):

(e) Rainy River and Hope projects:

The Rainy River power project is located near Gibsons, British Columbia. The designed capacity is 14 MW with an expected annual average electricity generation of approximately 50 GWh. The Hope power projects are located near Hope, BC and they have an estimated combined base capacity of 37 MW and potential base annual average electricity generation of 133 GWh.

In 2006, the Company entered the Rainy River power project and one of the Hope power projects into the 2006 BC Hydro Call for Tender. BC Hydro awarded the Company a 35 year EPA for the Rainy River project. In August 2007, the Company advised BC Hydro of its intention to exit the EPA for Rainy River project due to unexpected complexities in the environmental permitting process caused by the discovery of a number of fish species in the area. Complexities in permitting have increased uncertainty around the timing for the project commercial operation date. The Company paid a cancellation fee of \$100,662 to BC Hydro and received \$900,000 of performance security deposit back from its bank when the associated letter of credit that had been posted as a performance bond was released by BC Hydro.

Subsequent to December 31, 2007, the Company sold the Rainy River and Hope area projects to AltaGas Income Trust (AltaGas). The transaction involves the sale of all hydrological and environmental data and engineering and permitting work completed over the last four years as well as the water license and attendant land tenure applications for the projects. As consideration, the Company received 180,433 non-transferable, non-participating special warrants of AltaGas. The special warrants convert to 180,433 units of AltaGas on January 1, 2010 for no additional consideration. The Company has estimated the fair value these special warrants to be \$3.6 million, using the Black-Scholes option pricing model. At December 31, 2007, the Company has written-down the carrying value of the power project development costs related to the Rainy River and Hope projects to the estimated fair value of the consideration received from Alta Gas, resulting in a write-down of \$418,143.

(f) Other projects:

(i) Europa Project:

In April 2005, the Company successfully completed Stages 1 and 2 towards securing a Water License and Crown Land rights from the Ministry of Environment and the Integrated Land Management Bureau for this project. In April 2006, the Company submitted the Europa Creek project into the British Columbia Environmental Assessment Permitting Process, with the EAO consequently issuing a Section 10 order binding the project to the *Environmental Assessment Act*.

The Company has been collecting hydrological data on the project since early 2005, and is currently carrying out engineering and cost estimating work on the project with the intention of submitting it into the next BC Hydro Call for Tender.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

Years ended December 31, 2007 and 2006

7. Power projects (continued):

(f) Other projects (continued):

(ii) Freda Project:

In August 2005, the Company successfully completed Stages 1 and 2 towards securing a Water License and Crown Land rights from Ministry of Environment and the Integrated Land Management Bureau for the development of this project.

Since 2005, the Company has been collecting hydrological data in order to better define the water resource at Freda Creek.

8. Property, plant and equipment:

	2007		2006	
	Cost	Accumulated amortization	Net book value	Net book value
East Toba and Montrose assets under construction	\$ 36,951,835	\$ -	\$ 36,951,835	\$ -
Computer equipment	72,220	14,428	57,792	18,182
Office equipment	44,699	7,429	37,270	17,462
Vehicle	10,000	1,500	8,500	-
	<u>\$ 37,078,754</u>	<u>\$ 23,357</u>	<u>\$ 37,055,397</u>	<u>\$ 35,644</u>

A summary of the Company's proportionate interest in the East Toba and Montrose assets under construction at December 31, 2007 is as follows:

Engineering, procurement and construction costs	\$ 30,167,432
Development costs	1,400,000
BCTC interconnection costs	571,840
Land lease payments	46,560
Directly attributable project management costs	873,910
Directly attributable insurance costs	698,780
Capitalized financing costs	3,193,313
	<u>\$ 36,951,835</u>

On September 17, 2007, TMGP executed a \$497 million fixed-price EPC contract with Kiewit for the construction of the 196 MW East Toba and Montrose run-of-river hydroelectric projects, which includes the development of two powerhouses with intakes, penstocks and generation equipment, a corresponding transmission line, and related development costs including access roads and bridges. Since November 2006, the Company had engaged Kiewit under a limited notice to proceed contract and had funded final project engineering and the purchase of a number of pre-fabricated bridges and a construction camp to maintain a construction schedule to allow the project to be completed in 2010. TMGP reimbursed the Company for the cost incurred under the limited notice to proceed with Kiewit. As at December 31, 2007, TMGP had incurred or accrued for \$75.4 million under the terms of the EPC contract, of which the Company's proportionate share is \$30.2 million.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

Years ended December 31, 2007 and 2006

8. Property, plant and equipment (continued):

On October 1, 2007, TMGP executed a facilities agreement and a transmission interconnection agreement with British Columbia Transmission Corporation (BCTC) to interconnect the East Toba and Montrose generation facilities once built to BCTC's transmission line. TMGP is required to fund a total of \$2,846,600 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 and
- \$70,000 thereafter upon final reconciliation of costs

As at December 31, 2007, the TMGP had incurred and capitalized \$8.0 million in financing costs directly attributable to the construction of the East Toba and Montrose projects. The capitalized amount includes an upfront fee of \$4.7 million (being 1% of the \$470 million long-term debt facilities) paid to the co-debt arrangers and lenders on the closing date of the long-term debt credit facility (note 10), \$0.2 million of interest and fees paid to GE affiliates for guarantees, letters of credit and financing provided to the partnership, \$0.3 million of interest and stand-by fees paid to the lenders in respect of the long-term debt (note 10), and \$2.8 million of legal fees and other costs directly associated with the financing. The Company's proportionate interest in the capitalized financing costs is \$3.2 million.

9. Intangible assets:

Licenses, permits, IBA's, and EPA contributed by Plutonic, at carrying value (note 3)	\$	4,336,917
Payments made to First Nations under terms of IBA's and prepaid land tenure license fees		686,185
	\$	5,023,102

The East Toba and Montrose project's generation and associated facilities are being built within the traditional lands of the Klahoose First Nation and a significant portion of the transmission line being built linking the generation facilities to the BCTC grid is located within the traditional lands of the Sliammon First Nation. TMGP has IBA's with the Klahoose First Nation and Sliammon First Nation to facilitate their support of the development of the East Toba and Montrose projects. These agreements were initially obtained by the Company and were contributed to the Partnership as part of Plutonic's initial equity contribution.

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

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

Years ended December 31, 2007 and 2006

10. Long-term debt:

- (a) 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 the East Toba and Montrose projects. The co-lead arrangers led a syndicate of financial institutions to provide TMGP with \$470 million in credit facilities.

On November 8, 2007 the credit agreement was executed and the following facilities were made available to TMGP:

- (i) 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, 2007, the lenders had funded \$20.2 million under this credit facility, of which the Company's proportionate interest is \$8.1 million.
- (ii) 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) is providing \$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, 2007, TMGP had not yet drawn from this credit facility.

Concurrently with the closing of this floating rate facility, TMGP entered into two interest rate swap contracts, one for the estimated term of the construction period and one for the estimated operating term (note 11).

A commitment fee, equal to 0.375% per annum multiplied by the amount not drawn on the \$470 million in total available credit, is charged and paid to the lenders on a monthly basis by TMGP.

The Company's proportionate interest in commitment fees and interest payable under the terms of the credit facilities at December 31, 2007 is \$77,480, of which \$6,250 is owed to GE Lender.

In November 2007, TMGP paid an upfront financing fee to the co-lead arrangers and lenders of \$4.7 million, of which \$1.9 million was paid to a GE affiliate. The Company's proportionate interest in the upfront financing fee is \$1.9 million.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

Years ended December 31, 2007 and 2006

10. Long-term debt (continued):

(b) Principal repayments:

Principal repayments for both credit facilities are to be made by TMGP annually until 2044 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 being 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 \$7.6 million per annum over the term of repayment, of which the Company's proportionate interest is \$3.0 million. The Company's proportionate interest in the minimum principal payments over the next five years, assuming a draw down of the entire \$470 million credit facilities, are as follows:

2008	\$	-
2009		-
2010		-
2011		1,617,456
2012		1,720,333

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.

(c) 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

(d) 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 ongoing construction. At December 31, 2007, a total of \$20.2 million, being the amount drawn on the fixed rate facility plus accrued interest, was being held in escrow of which the Company's proportionate interest is \$8.1 million. Funds held in escrow are invested in one month bankers' acceptances with yields at December 31, 2007 ranging from 4.468% per annum to 4.527% per annum. The construction escrow account is classified as a long-term asset as it is to be used exclusively to pay for the development and construction of the East Toba and Montrose projects.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

Years ended December 31, 2007 and 2006

11. Interest rate swaps:

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

The first interest rate swap agreement is effective from November 8, 2007 to November 1, 2010. Pursuant to the interest rate swap agreement, TMGP will receive interest on a notional amount at the one month Canadian dollar Bankers Acceptance Rate from the counterparty and will pay 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 is anticipated to be consistent with the drawings made on the \$100 million floating rate credit facility (note 10(a)(ii)). TMGP and the counterparty net settle the amount owing on a monthly basis commencing December 31, 2007.

The second interest rate swap agreement is effective from November 1, 2010 to June 30, 2045. 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 reduced in amounts based on the scheduled principal repayments on the \$100 million floating rate facility. TMGP and the counterparty net settle the amount owing on a quarterly basis commencing December 31, 2010.

Neither the Company nor TMGP have designated the interest rate swap contracts as hedges in accordance with CICA 3865, *Hedges*. As such, TMGP and the Company account for the interest rate swap contracts as derivative financial instruments and record the fair value of the two contracts on their balance sheets at each period end, with realized and unrealized gains or losses from the change in fair value recorded in the statement of operations.

The Company's proportionate interest in the fair value of the interest rate swap contracts have been reflected in the financial statements and represent a liability and unrealized loss of \$2.9 million at December 31, 2007. The fair values were determined based on valuations obtained from the counter-party.

12. Related party transactions:

Until December 31, 2007 substantially all of the Company's administrative operations had been performed by a private company owned by the President of the Company. This related private company charged fees of \$54,630 (2006 - \$402,563) for these services during 2007 and was owed \$14,631 (2006 - \$64,001) at December 31, 2007. The Company also purchased a used vehicle and office furniture and equipment, at fair market value, from this related private company in the amount of \$10,000 and \$9,935 respectively. The amounts owed to this related company are non-interest bearing. The activities under this arrangement ceased as of December 31, 2007.

During 2007, the Company paid or accrued \$551,039 (2006 - \$278,093) in legal fees to a law firm, of which a partner is the corporate secretary of the Company, and this law firm was owed \$2,252 (2006 - \$21,183) at December 31, 2007. The activities under this arrangement ceased as of December 31, 2007.

The Company provides to TMGP on-going office administration services on a cost recovery basis. As at December 31, 2007, the Company was owed \$122,395 for such services. The amounts due to the Company from TMGP are non-interest bearing and have no fixed terms of repayment.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

Years ended December 31, 2007 and 2006

13. Share capital:

- (a) Authorized
100,000,000 common shares without par value
10,000,000 preferred shares without par value, issuable in series
- (b) Common shares - Issued and outstanding:

	Number of shares	Amount
Balance, December 31, 2005	12,684,982	\$ 4,001,939
Issued for cash from private placement	13,100,000	22,480,000
Issued for cash on exercise of warrants	4,235,020	2,701,800
Issued for cash from exercise of options	435,000	192,400
Share issue costs	-	(1,646,185)
Transfer from contributed surplus on exercise of vested options	-	143,700
Balance, December 31, 2006	30,455,002	27,873,654
Issued for cash from private placement	7,100,000	32,305,000
Share issue costs	-	(2,082,764)
Issued for cash on exercise of warrants	1,826,141	2,926,501
Issued for cash from exercise of options	782,850	773,582
Issued per terms of a termination agreement	250,000	1,162,500
Transfer from contributed surplus on exercise of vested options	-	702,242
Transfer from contributed surplus on exercise of vested warrants	-	353,818
Balance, December 31, 2007	40,413,993	\$ 64,014,533

In April 2007, the Company closed a \$32,305,000 bought deal private placement equity financing co-led by Orion Securities Inc. and Cormark Securities Inc. and including Scotia Capital Inc. and Toll Cross Securities Inc. by which it sold 7,100,000 common shares of the Company at \$4.55 per common share. The Company received \$30,404,280 net of underwriters' commission of \$1,776,775 (5.5% on gross cash proceeds) and other share issue costs.

In April 2007, the Company agreed to issue 250,000 units, with each unit comprised of one common share and one-half of one common share purchase warrant, to a consultant as part of the termination of a consulting agreement. Each whole warrant is exercisable into a common share of the Company at a price of \$4.65 per share and is exercisable for a two year period. The shares were valued based on the closing price of the shares on the date of the agreement and the warrants were valued at \$153,375 using an option pricing model assuming a risk-free rate of 4%, an expected life of one year, expected volatility of 63% and expected dividend yield of nil. The value of the shares and warrants issued was capitalized to power project development costs during the year ended December 31, 2007.

In May 2007, 304,875 of the issued common shares of the Company that were subject to escrow restrictions at December 31, 2006 were released. As at December 31, 2007, there were no remaining common shares subject to escrow restrictions.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

Years ended December 31, 2007 and 2006

13. Share capital (continued):

(b) Common shares - Issued and outstanding (continued):

During the year ended December 31, 2006, the Company completed a non brokered private placement of 3,100,000 units at a price of \$0.80 per unit for total cash consideration of \$2,480,000. Each unit consisted of one common share and one-half of one share purchase warrant. Each full warrant entitles the holder to purchase one additional common share at \$1.25 per share until March 28, 2007 and at \$1.75 per common share until March 29, 2008.

During the year ended December 31, 2006, the Company completed a brokered private placement of 10,000,000 common shares at a price of \$2.00 per share for total cash consideration of \$20,000,000. The financing was underwritten by a syndicate of underwriters co-led by Sprott Securities Inc. and Orion Securities Inc. The underwriters were paid a cash commission of 6.5% of total cash proceeds and received compensation warrants entitling them to purchase an additional 498,751 common shares at \$2.00 per common share until November 9, 2008.

(c) Share purchase warrants:

The continuity of share purchase warrants during the year ended December 31, 2007 is as follows:

Expiry date	Exercise price	Balance Dec 31, 2006	Issued	Exercised	Expired	Balance, Dec 31, 2007
March 28, 2008	\$1.25/\$1.75	1,456,250	-	(1,409,375)	-	46,875
August 29, 2008	\$2.50	1,830,000	-	-	-	1,830,000
November 9, 2008	\$2.00	498,751	-	(291,766)	-	206,985
May 14, 2009	\$4.65	-	125,000	(125,000)	-	-
October 26, 2009	\$9.03	-	650,000	-	-	650,000
		3,785,001	775,000	(1,826,141)	-	2,733,860

The continuity of share purchase warrants during the year ended December 31, 2006 is as follows:

Expiry date	Exercise price	Balance Dec 31, 2005	Issued	Exercised	Expired	Balance, Dec 31, 2006
May 16, 2006	\$0.31	2,270,000	-	(2,270,000)	-	-
December 23, 2006	\$0.90 - \$1.25	1,872,770	-	(1,871,270)	(1,500)	-
March 28, 2008	\$1.25/\$1.75	-	1,550,000	(93,750)	-	1,456,250
August 29, 2008	\$2.50	-	1,830,000	-	-	1,830,000
November 9, 2008	\$2.00	-	498,751	-	-	498,751
		4,142,770	3,878,751	(4,235,020)	(1,500)	3,785,001

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

Years ended December 31, 2007 and 2006

13. Share capital (continued):

(d) Stock options:

The Company grants stock options to directors, officers and employees of the Company and persons who provide ongoing services to the Company under an incentive stock option plan dated May 3, 2004 and amended on May 16, 2006. The Company had reserved 3,640,996 common shares for issue under this incentive stock option plan. As of November 14, 2006, the Company had granted the entire amount available under this plan. In May 2007, the Company received shareholder approval at its annual general shareholder meeting for the amendment of the incentive stock option plan to increase the number of common shares available for issue from 3,640,996 to 6,000,000. As at December 31, 2007, the Company had granted the entire number of common shares available for issue under the incentive stock option plan.

The exercise price of stock options under the incentive stock option plan is no less than the closing price of shares on the business day immediately preceding the date on which the option is granted. A number of options vest at the rate of 25% on the date of the grant and 25% every six months thereafter. The remaining options, based on the Company's current policy, vest over three years, with 1/3 of the grant vesting at the end of each completed year from the date of grant. Options expire no later than five years from the grant date, except that they expire within 90 days when the holder is no longer qualified to hold the option (other than for cause, when the option expires immediately).

A summary of share option activity and information concerning outstanding and exercisable options at December 31, 2007 and 2006 is as follows:

	Options granted	Weighted average exercise price
Balance, December 31, 2005	2,180,750	\$ 0.46
Options granted - approved	1,610,246	1.49
Options granted - subject to shareholder approval *	156,504	2.66
Options exercised	(435,000)	0.44
Balance, December 31, 2006	3,512,500	1.03
Options granted - approved	2,615,000	4.70
Options exercised	(782,850)	0.99
Options cancelled	(412,500)	3.91
Balance, December 31, 2007	4,932,150	\$ 2.74

* Shareholder approval obtained in May 2007.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

Years ended December 31, 2007 and 2006

13. Share capital (continued):

(d) Stock options (continued):

The following table summarizes information concerning outstanding and exercisable options at December 31, 2007:

Grant date	Expiry date	Number outstanding	Weighted average exercise price	Weighted remaining contractual life (in years)	Number vested and exercisable	Weighted average exercise price
Sept 8, 2003	Sept 8, 2008	411,250	\$0.20	0.69	411,250	\$0.20
May 17, 2004	May 17, 2009	278,500	\$0.32	1.38	278,500	\$0.32
Nov 23, 2004	Nov 24, 2009	377,650	\$0.75	1.90	377,650	\$0.75
Sept 1, 2005	Sept 2, 2010	150,000	\$0.80	2.67	150,000	\$0.80
Mar 27, 2006	Mar 27, 2011	160,000	\$0.80	3.24	160,000	\$0.80
Mar 28, 2006	Mar 28, 2011	300,000	\$0.80	3.24	300,000	\$0.80
June 7, 2006	June 7, 2011	502,750	\$1.65	3.44	502,750	\$1.65
July 10, 2006	July 10, 2011	190,000	\$1.63	3.53	142,500	\$1.63
July 25, 2006	July 25, 2011	200,000	\$2.12	3.57	150,000	\$2.12
Nov 14, 2006	Nov 14, 2011	45,500	\$2.10	3.87	23,000	\$2.10
Dec 18, 2006	Dec 18, 2011	74,000	\$2.80	3.97	47,750	\$2.80
Jan 17, 2007	Jan 17, 2012	15,000	\$2.95	4.05	-	\$2.95
Mar 27, 2007	Mar 26, 2012	350,000	\$4.20	4.24	175,000	\$4.20
Mar 28, 2007	Mar 27, 2012	1,322,500	\$4.25	4.24	660,000	\$4.25
Apr 20, 2007	Apr 19, 2012	230,000	\$5.28	4.30	115,000	\$5.28
May 14, 2007	May 13, 2012	100,000	\$7.28	4.37	50,000	\$7.28
May 22, 2007	May 21, 2012	150,000	\$7.30	4.39	-	\$7.30
Jul 11, 2007	Jul 10, 2012	27,500	\$7.80	4.53	-	\$7.80
Sept 13, 2007	Sept 12, 2012	47,500	\$6.90	4.70	-	\$6.90
		4,932,150	\$2.74	3.33	3,543,400	\$1.98

The weighted average grant-date fair value of stock options granted during the 2007 and 2006 was \$4.66 and \$0.58 respectively. 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:

	2007	2006
Risk-free interest rate	3.9% to 4.0%	3.9% to 4.0%
Expected life	2.5 to 4 years	2.5 years
Expected volatility	55% to 73%	38% to 68%
Expected dividend yield	Nil	Nil

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

Years ended December 31, 2007 and 2006

14. Contributed surplus:

Balance, December 31, 2005	\$	566,140
Share-based compensation expense		446,994
Fair value of options and warrants issued for power project financing		1,220,730
Fair value of compensation warrants issued for equity financing		160,597
Transfer to share capital on exercise of vested options		(143,700)
Balance, December 31, 2006		2,250,761
Share-based compensation expense		3,785,883
Fair value of options issued to consultants		96,540
Fair value of options and warrants capitalized to power project costs		4,813,181
Fair value of warrants issued with respect to guarantee fees (note 5)		1,423,500
Fair value of compensation warrants issued for equity financing		182,043
Transfer to share capital on exercise of vested options		(702,242)
Transfer to share capital on exercise of warrants		(353,818)
Balance, December 31, 2007	\$	11,494,848

15. Short term loans:

In August 2006, the Company borrowed \$9,700,000 (including \$1,150,000 from directors and officers of the Company) from a private group of investors (Investors) to partly finance the issuance of \$12,660,000 in performance bonds as part of the EPA requirement for the East Toba Montrose and Rainy River power projects. GE provided the Company with an additional \$2,500,000 in credit support in the form of a letter of credit which was secured by a pledge of the assets of the Company. GE and the Investors were paid an annual interest rate of 10% for the first 60-day period and 12% thereafter.

The Investors were issued 1,455,000 share purchase warrants (172,500 to directors and officers) equaling 150,000 warrants per million dollars received and GE was issued 375,000 share purchase warrants. Each share purchase warrant entitles the holder to purchase one common share of the Company at a price of \$2.50 per common share until August 28, 2008. The fair value of the warrants was calculated using a risk-free rate of 4%, an expected life of one year, expected volatility of 27% and expected dividend yield of nil.

In November 2006, the Company repaid the Investors \$9,700,000 in principal plus interest of \$195,901 (\$23,063 to directors and officers of the Company). At December 31, 2006, interest of \$93,698 had accrued with respect to the letter of credit support provided by GE.

In connection with the transfer of the BC Hydro EPA to TMGP, the Company returned to GE its \$2,500,000 letter of credit support in November 2007 and paid to GE a total of \$349,315 in accrued interest.

During the year ended December 31, 2007, \$255,617 (2006 - \$289,600) of interest was capitalized to power projects development costs with respect to the interest paid to the Investors and GE with respect to this transaction.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

Years ended December 31, 2007 and 2006

16. Income taxes:

The significant components of the Company's future income tax assets and liabilities at December 31, 2007 and 2006 are as follows:

	2007	2006
Future income tax assets:		
Loss carry forwards	\$ 4,196,457	\$ 1,456,068
Property, plant and equipment	7,097	2,781
Eligible capital property	57,849	73,801
Interest rate swap contract	777,918	-
Deferred gain on transfer of assets	2,091,775	-
Share issue costs	760,530	669,627
Total future income tax assets	7,891,626	2,202,277
Future income tax liabilities:		
Power project development costs	(817,439)	(1,277,743)
Intangible assets	(884,216)	-
Investment in TMGP	(2,754,936)	-
Total future income tax liabilities	(4,456,591)	(1,277,743)
Net future income tax asset	3,435,035	924,534
Valuation allowance	(3,435,035)	(924,534)
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 34.12% (2005 - 34.12%) to pre-tax losses as a result of the following:

	2007	2006
Loss before income taxes	\$ 10,644,912	\$ 1,760,567
Statutory tax rate	34.12%	34.12%
Recovery of income taxes based on statutory income tax rates	\$ 3,632,044	\$ 600,705
Increase (decrease):		
Effect of change in valuation allowance	(2,510,500)	(599,193)
Effect of non-deductible items	(1,340,961)	(159,615)
Other	219,417	158,103
Realization of future income tax asset not previously recognized	-	567,000
Future income tax recovery	\$ -	\$ 567,000

At December 31, 2007, the Company has unrecognized non-capital losses for income tax purposes of approximately \$15.5 million (2006 - \$4.2 million) that may be used to offset future taxable income. These losses, if not utilized, will expire between 2008 and 2027.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

Years ended December 31, 2007 and 2006

17. Supplemental cash flow information:

Supplementary information:			
Interest and fees paid	\$	626,190	\$ 195,901
Interest received		1,224,220	61,494
Non-cash transactions:			
Shares received as recovery of mineral property costs		-	16,250
Fair value of options and warrants capitalized to power project development costs		4,813,181	1,220,730
Fair value of compensation warrants issued for equity financing		182,044	160,597
Fair value of warrants issued for prepaid guarantee fee		1,423,500	-
Accrued interest capitalized to power projects		-	93,698
Shares issued for settlement agreement capitalized to power projects		1,162,500	-
Fair value of warrants for settlement agreement capitalized to projects		153,375	-

18. Subsequent events:

- (a) Subsequent to December 31, 2007, the Company issued 1,492,350 common shares pursuant to the exercise of stock options for cash proceeds of \$991,990 and issued 15,625 common shares pursuant to the exercise of warrants for cash proceeds of \$27,344.
- (b) Subsequent to December 31, 2007, TMGP, Plutonic Power Corporation and the Sechelt First Nation signed a long-term IBA that facilitates the development of transmission infrastructure and the Sallery Bay substation within Sechelt Traditional Territory. The terms of this agreement include:
- Ongoing respect by Plutonic Power Corporation, its affiliated companies and TMGP for asserted rights and title of the Sechelt First Nation in the area where the transmission line and substation will be located in their Traditional Territory;
 - Annual payments for the life of the project;
 - Employment and training opportunities for Sechelt members; and
 - Opportunities for Sechelt-owned First Nation companies in the clearing and construction of the substation.