



FISCAL YEAR ENDED DECEMBER 31, 2010

Management's Discussion & Analysis

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INTRODUCTION

This Management's Discussion and Analysis ("MD&A") includes financial information from, and should be read in conjunction with, the Audited Consolidated Financial Statements of Plutonic Power Corporation (the "Company") for the fiscal years ended December 31, 2010 and 2009. The Company reports its financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles ("GAAP") in Canadian dollars. This MD&A was prepared with information available as of March 15, 2011. Additional information and disclosure relating to the Company can be found on SEDAR at www.sedar.com

The Company's head office and all of its wholly owned subsidiary entities are domiciled in the Province of British Columbia ("BC"), Canada, with operations and development projects in both British Columbia and Ontario. The Company is a reporting issuer in all the Provinces of Canada, except Quebec, and its common shares trade on the Toronto Stock Exchange ("TSX") under the symbol PCC. The Company's principal business activities are the identification, development, construction and operation of clean power projects.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A constitute forward-looking statements. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "designed", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements. Based on current available information, the Company believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that those expectations will prove to be correct. The forward-looking statements in this MD&A are expressly qualified by this statement, and readers are advised not to place undue reliance on the forward-looking statements.

HIGHLIGHTS

Toba Montrose run-of-river hydroelectric facilities

- In May 2010, Toba Montrose General Partnership ("TMGP") commenced selling electricity generated by the East Toba facility under its 35 year electricity purchase agreement ("EPA") with BC Hydro and Power Authority ("BC Hydro"), and from the Montrose Creek facility beginning in July 2010.
- On November 1, 2010, TMGP's contractor substantially completed construction of the East Toba and the Montrose Creek run-of-river hydroelectric generation and transmission facilities ("Toba Montrose") and TMGP assumed operational control of Toba Montrose.
- From May to October 2010, TMGP generated \$37.4 million of pre-substantial completion revenue, and from November to December 2010, TMGP generated \$2.2 million in post substantial completion revenue.
- In August 2010, TMGP received its Ecologo certificate and it became eligible to start receiving funding under the Government of Canada's ecoEnergy for Renewable Power program

("ecoEnergy program"). In 2010, the Company received or accrued a total of \$2.5 million in EcoEnergy funding.

- In February 2011, the TMGP partners funded their respective share of the \$20.0 million Toba Montrose construction cost contingency. The Company funded its 40% share from an \$8.0 million short-term loan from GE, which bears interest at 12% per annum, is secured against the Company's interest in TMGP and is repayable by July 1, 2011. Concurrent with the funding of the construction cost contingency, the TMGP construction loans were converted to operating loans.

Dokie Wind Farm

- During 2010, Dokie General Partnership ("DGP") commenced construction of the partially completed Dokie Wind Farm which it acquired in late 2009.
- In February 2011, DGP commenced selling electricity generated by the Dokie wind farm under its 25 year EPA with BC Hydro.
- In February 2011, DGP received its Ecologo certificate and became eligible to start receiving funding under the ecoEnergy program.

Upper Toba Valley run-of-river hydroelectric facilities

- In 2010, the Company and GE Energy Financial Services ("GE") signed a 40 year EPA with BC Hydro for the Upper Toba Valley Project that includes two run-of-river projects ("Power Sites") with a combined expected annual generation of 330,000 to 340,000 MWh of electricity.
- This represents a modification from the original bid from three power sites to two, as a result of capacity constraints identified by BC Hydro on their transmission line. The Company and GE are currently in the process of updating an assessment of the project.

ABW Solar Farm

- In January 2011, the Company and GE agreed to acquire a 50-megawatt (alternating current) portfolio of three photovoltaic solar facilities to be built in Ontario ("ABW Solar") by First Solar. It is expected that First Solar will complete the permitting of ABW Solar under the Ontario's Renewable Energy Approval process in the spring of 2011, with construction to begin by mid-2011 and construction completed in early 2012.
- The Company has the option to make an equity contribution of approximately \$6 million to earn a 10% interest in ABW Solar, and it will serve as the managing partner.

Merger with Magma Energy Corp.

- On March 7, 2011, the Company and Magma Energy Corp. ("Magma") announced that they have entered into an arrangement agreement to merge and create Alterra Power Corp. Under the terms of the arrangement agreement, each shareholder of the Company will receive 2.38 common shares of Magma for each common share held of the Company.

- Completion of the merger is conditional on approval from both the Company’s shareholders and the shareholders of Magma at special meetings expected to be held in April 2011, and satisfaction of other customary approvals, including regulatory, stock exchange and court approvals.

PROJECT UPDATES AND OUTLOOK

Toba Montrose – In Operation

The Company has a 40% economic interest in TMGP and Toba Montrose. The remaining 60% economic interest in TMGP and Toba Montrose is held by GE. Toba Montrose is located in the Toba Valley, approximately 100 km north-east of Powell River, BC. Toba Montrose is expected to generate a long term annual average of 710,000 to 730,000 megawatt hours (“MWh”) of electricity.

In 2009, TMGP and the Government of Canada signed an agreement under the ecoEnergy program that provides incentive funding to increase Canada’s supply of electricity from renewable sources, including low-impact hydro projects such as Toba Montrose. TMGP will be entitled to receive up to \$71.5 million in funding under the ecoEnergy program during its first ten years of operations based on \$10 per megawatt-hour of electricity generated by Toba Montrose and sold to BC Hydro.

In May 2010, TMGP commenced selling electricity generated by Toba Montrose to BC Hydro under a 35 year long EPA while Toba Montrose remained under Kiewit’s control pending final performance tests were completed. During this period prior to the substantial completion of Toba Montrose, TMGP received \$37.4 million in revenue and \$2.3 million in ecoEnergy grants, both of which were recorded against property plant and equipment.

On November 1, 2010, TMGP assumed full operational control of the Toba Montrose generation and transmission facilities and TMGP began to recognize the sale of electricity and the related ecoEnergy grant in its Statement of Operations. In the last two months of 2010, TMGP received \$2.2 million in revenue and was eligible to claim \$0.2 million in ecoEnergy grants.

Seasonal forecasted production will be approximately as follows:

Q1 (January – March)	4%
Q2 (April – June)	32%
Q3 (July – September)	52%
Q4 (October – December)	12%

During operations, TMGP continues to work with our First Nations partners, the Klahoose, Sliammon and Sechelt First Nations.

The Company holds a 51% non-participating and voting interest and a 40% economic interest in TMGP. After 35 years of operations, the Company’s economic interest in TMGP will increase from 40% to 51% for no additional consideration.

Currently, under Canadian GAAP, the Company accounts for its investment in TMGP using the proportionate consolidation method of accounting whereby the Company records its 40% share of TMGP’s assets, liabilities, revenues and expenses. In 2011, under International Financial Reporting Standards (“IFRS”), the Company will adopt equity accounting for its investment in TMGP. As a result, the Company will no longer record its proportionate share of TMGP assets, liabilities, revenues and expenses and will instead show its investment in TMGP as a single line item on the balance sheet

and the Company will report its 40% share of equity income from TMGP as a single line item in the Statement of Operations.

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

Dokie Wind Farm – In Operation

The Company has a 51% interest in DGP which owns the recently built Dokie Wind Farm in BC. The remaining 49% interest in DGP is held by GE. The Dokie Wind Farm is located 1,100 km northeast of Vancouver, near Chetwynd, BC and consists of 48 Vestas V-90 wind turbines that are expected to generate a long term annual average of 320,000 to 340,000 MWh of electricity.

In January 2011, DGP assumed operational control of the Dokie Wind Farm and in February 2011, DGP commenced selling electricity to BC Hydro under a 25 year long EPA and began recognizing revenue in the Statement of Operations.

DGP and the Government of Canada signed an agreement under the ecoEnergy for Renewable Power program. In February 2011 DGP was awarded their Ecologo certificate and became eligible to start receiving funding under the ecoEnergy program. DGP will be entitled to receive up to \$33.1 million in funding under the ecoEnergy program during its first ten years of operations based on \$10 per megawatt-hour of electricity generated by the Dokie Wind Farm and sold to BC Hydro.

Seasonal forecast production will be approximately as follows:

Q1 (January – March)	28%
Q2 (April – June)	20%
Q3 (July – September)	22%
Q4 (October – December)	30%

Support from the community has been very positive and DGP continues to work with its First Nations partners, the Halfway River, West Moberly and Sauleau First Nations and the McLeod Lake Indian Band during operations.

The Company accounts for its investment in DGP using the proportionate consolidation method of accounting whereby the Company records its 51% share of DGP assets, liabilities, revenues and expenses. In 2011, under IFRS, the Company will adopt equity accounting for its investment in DGP. As a result, the Company will no longer record its proportionate share of DGP assets, liabilities, revenues and expenses and will instead show its investment in DGP as a single line item on the balance sheet and the Company will report its 51% share of equity income from DGP in 2011 as a single line item in the Statement of Operations. The obligations of DGP are non-recourse to the Company.

ABW Solar – Under Development

In January 2011, the Company and GE agreed to acquire a 50-megawatt (alternating current) portfolio of three photovoltaic solar facilities to be built in Ontario (“ABW Solar”) by First Solar Inc.

First Solar Inc. will permit ABW Solar under the Ontario’s Renewable Energy Approval process in the spring of 2011 and First Solar Inc. is expected to begin construction of ABW Solar by mid-2011, with completion of construction in early 2012.

The Company and GE have formed the ABW Solar General Partnership (“ABWSGP”) to acquire and hold ABW Solar. The Company has the option to make an equity contribution of approximately \$6 million to earn a 10% interest in ABWSGP, and will serve as the managing partner. ABWSGP will sell the electricity generated from ABW Solar to the Ontario Power Authority under a 20-year EPA. ABW Solar will interconnect to Ontario’s distribution grid at five points.

First Solar Inc. will also provide operations and maintenance services under long-term contracts on commencement of commercial operations.

Dokie Wind Expansion Project – Under Development

The Company holds a 51% interest in a potential expansion of the Dokie Wind Farm (“Dokie Wind Expansion Project”). GE holds the remaining 49% interest. The Company and GE are preparing an assessment of the Dokie Wind Expansion Project scheduled to be completed by the end of the second quarter of 2011.

The Dokie Wind Expansion Project has received a BC Provincial Environmental Assessment Certificate. Amendments to the certificate may be required depending on the results of the assessment.

Upper Toba Valley Project – Under Development

During 2006, the Company had applications for water licences 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 three Power Sites. The Company then submitted the Upper Toba Valley Project to the BC Environmental Assessment Office (“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, enabling the federal agencies to proceed with the permitting of the Upper Toba Valley Project.

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 expected annual generation of 330,000 – 340,000 MWh of electricity. This represents a modification from the original bid of three Power Sites. The Dalglish Power Site was removed from the Company and GE’s bid during discussions with BC Hydro to address capacity constraints identified by BC Hydro on their transmission line between SALTERY Bay and Malaspina. The Dalglish Power Site remains a potentially viable project should the BC Hydro transmission line constraints between SALTERY Bay and Malaspina be removed in the future. On April 28, 2010, the Company and GE entered into a 40 year EPA with BC Hydro for the modified Upper Toba Valley Project. With the change in size of the Upper Toba Valley Project, the Company and GE are updating their assessment of the project.

A new transmission line was built to interconnect Toba Montrose to the BC Hydro substation at SALTERY Bay, and subject to a priority use agreement with TMGP, the Company has the right to use the excess and unused capacity of the TMGP transmission line for the Upper Toba Valley Project.

The Company has Impact Benefit Agreements (“IBAs”) with the Sliammon and Sechelt First Nations that cover approval for the Upper Toba Valley Project and is in negotiations on an IBA with the Klahoose First Nation.

Bute Inlet Project – Under Development

The Bute Inlet Project consists of seventeen Power Sites, with a combined potential annual generation of approximately 2,900,000 MWh of electricity. Eight of these seventeen Power Sites were added during 2007 and one was added during 2008. From 2003 through 2008, the Company applied for and had applications for water licences and Crown Land tenure accepted by MOE and ILMB for the Bute Inlet Power Sites.

The Company and GE jointly bid the Bute Inlet Project into the BC Hydro 2008 RFP in November 2008. The Bute Inlet Project proposal submitted to the BC EAO, the Canadian Environmental Assessment Agency and the Major Projects Management Office was for the construction of seventeen run-of-river generating facilities, organized into three interconnected groups. Seven of the facilities are located in or near the Homathko River system, seven in the Southgate River system and three in the Orford River system.

In March 2010, the Company and GE jointly announced negotiations with BC Hydro for an EPA on the Bute Inlet Project would not move ahead at that time in order to allow for further data collection, studies, due diligence and market assessment.

The Company remains committed to the development of this project and will continue with cost-effective work necessary to advance this project in a manner consistent with the high standards set by Governments.

Other Projects Under Development

The Company has twenty-two other Power Sites, with a combined potential average annual generation of approximately 2,300,000 MWh of electricity. These Power Sites are located primarily in the south-western region of BC. The Company continues to collect hydrological data, conduct engineering work and perform other required studies on these Power Sites.

During 2010 the applications for a water licence and Crown Land tenure were accepted by the MOE and ILMB, for a 1,000 MW pumped storage site in south-western BC.

SELECTED ANNUAL INFORMATION

The following financial information has been prepared in accordance with Canadian GAAP and is reported in Canadian dollars.

Fiscal Year ended	December 31, 2010	December 31, 2009	December 31, 2008
Total Operating Income	\$948,946	Nil	Nil
Net Loss for the Year	\$11,803,615	\$19,268,611	\$14,323,907
Loss Per Common Share	\$0.18	\$0.40	\$0.34
Loss Per Diluted Common Share	\$0.18	\$0.40	\$0.34
Total Assets	\$411,318,522	\$400,902,579	\$195,014,124
Total Long-Term Liabilities	\$300,451,536	\$264,938,220	\$113,277,836
Cash Dividends per Common Share	Nil	Nil	Nil
Number of Common Shares Issued and Outstanding	65,407,765	65,386,005	44,191,503

RESULTS OF OPERATIONS

Year ended December 31, 2010, compared to the year ended December 31, 2009

The Company recorded a net loss of \$11,803,615 for the year ended December 31, 2010 (\$0.18 loss per common share) compared to a net loss of \$19,268,611 (\$0.40 loss per common share) for the year ended 2009, a reduction in net loss of \$7,464,996, as explained in the following paragraphs.

During 2010, Toba Montrose began generating revenue from electricity sales to BC Hydro under its 35 year EPA. Substantial completion of the Toba Montrose facility was declared on November 1, 2010 and the Company's proportionate share of revenue, post substantial completion, of \$867,242 has been recognised in the Statement of Operations (2009: nil).

Following commencement of commercial operations TMGP became eligible for the EcoEnergy grant during 2010, and the Company recognized its proportionate share of the grant of \$81,704 in the Statement of Operations (2009: nil).

Following the substantial completion of Toba Montrose, the Company began to amortize its share of Toba Montrose property plant and equipment in November 2010, resulting in an increase in amortization from \$68,210 in 2009 to \$895,617 for the current year.

The Company did not expense any guarantee fees during 2010 while it expensed \$1,561,293 in guarantee fees during 2009. The guarantee fees for 2009 are comprised of \$736,293 in amortization of the fair value of the 650,000 warrants issued by the Company to GE in 2007 and \$825,000 in cash payments related to the 3% annual cash fee paid to GE for the \$30 million letter of credit GE had posted on behalf of the Company to TMGP lenders. The letter of credit provided by GE guaranteed the \$30 million equity contribution the Company was required to make to TMGP no later than November 1, 2010. The Company made its \$30 million contribution and as such incurred its last guarantee fee expense in November 2009.

The Company incurred interest expense of \$2,003,886 (2009: nil) representing the Company's proportionate share of the interest on the \$470 million TMGP loans. Following substantial completion of Toba Montrose, the Company began to report interest expense in its Statement of Operations. Prior to substantial completion on November 1, 2010, the interest costs were recorded under property plant and equipment.

Operations and maintenance costs of \$405,321 were recognized in the Statement of Operations during 2010 (2009: nil), representing the Company's proportionate share of two months' direct operating costs of Toba Montrose.

During 2010, the Company did not write-off any power project development costs compared to \$34,900 in 2009. When project development costs no longer meet the criteria for deferral, the costs are expensed. See Critical Accounting Estimates section for details on power project development cost criteria.

In 2010, the Company expensed \$56,373 on project evaluation costs compared to \$391,806 in 2009, a reduction of \$335,433. The Company incurs expenditures in evaluating potential new projects. If, due to these evaluations, the Company deems a new project technically and economically feasible and intends to develop the project, it will then begin to capitalize these costs related to the project, upon receipt of an associated water or similar license.

Salaries expense was \$6,257,128 in 2010 compared to \$4,284,751 in 2009, an increase of \$1,972,377. The increase is predominantly due to the payment of long-term incentive bonuses during the year.

Share-based compensation expense, a non-cash item, is recorded over the vesting period of the stock options that have been granted. This expense was \$1,771,724 in 2010 compared to \$1,413,827 in 2009, an increase of \$357,897. This increase was due to awards granted during 2010 and the average grant date fair value of the options granted increased from \$1.27 per common share in 2009 to \$1.67 per common share in 2010.

Consulting fees, general and administration costs, insurance, professional fees, rent, transfer agent and listing fees and travel and promotion were \$2,659,637 in 2010 compared to \$3,857,200 in 2009, a reduction of \$1,197,563. The reduction in both these costs and project evaluation costs in 2010 is due to the Company's primary focus on the Toba Montrose and Dokie Wind Farm projects, therefore costs to support the Company's expanded development and growth activities related to other power projects under development had decreased.

In 2010 the Company earned interest income of \$66,854 compared to \$141,443 in 2009, a decrease of \$74,589 due to lower average interest rates on lower average cash balances on hand.

During 2010, the Company earned dividend income of \$162,390 compared to nil in 2009 from its investment in AltaGas units that converted from non-participating special warrants to participating units on January 1, 2010. The Company sold its investment in AltaGas in 2010 for cash proceeds of \$3,065,131 (net of commission fees of \$27,114) recording a realized loss on investment of \$549,516 in 2010.

Following the substantial completion of Toba Montrose, the Company commenced release of the deferred gain over the life of the EPA with BC Hydro. During 2010, other income of \$77,092 was recognized (2009: nil) in the Statement of Operations.

During 2010, the Company recorded its share of TMGP's realized loss on interest rate swap contracts of \$1,463,005 and an unrealized gain on the fair value adjustment of interest rate swap contracts of \$3,003,310 compared to a realized loss of \$1,072,453 and unrealized loss of \$6,725,614, respectively in 2009 for a total reduction in loss of \$9,338,372.

During 2010, the Company recorded an unrealized loss of \$5,493,411 (an unrealized gain of \$3,294,877 in 2009) in other comprehensive income, representing its share of TMGP's effective portion of the change in fair value of the interest rate swap designated as a cash flow hedge. The unrealized losses and gains on the fair value adjustment of the interest rate swap contracts are non-cash items. See Financial and Other Instruments for details on the accounting treatment of these interest rate swap contracts.

In November 2007, TMGP entered into two interest rate swap contracts related to its \$100 million floating rate credit facility to be drawn during the approximately three year construction period and to be repaid during the operating term of 35 years. During 2008, TMGP designated the long dated interest rate swap as a cash flow hedge. In March 2009, 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. The impact to the Company under the terms of the amended TMGP partnership agreement is described in the following paragraphs.

- For the short dated interest rate swap contract, which expired in November 2010, the Company was solely liable for any gains or losses in the event of an early termination of the contract instead. This resulted in the Company being allocated 100% of the unrealized gains and losses from the change in fair value of the short dated interest rate swap contract until its expiry in 2010. As a result of amending the Partnership agreement, the Company recorded a one-time adjustment of \$3.3 million in March 2009 for the resulting increase in the interest rate swap contract liability and unrealized losses in the Statement of Operations.
- For the long dated interest rate swap contract, which expires in June 2045, the Company is 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 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 up to a maximum of \$13.0 million and 40% of the unrealized gains and losses in excess of \$13.0 million. As a result the Company recorded a one-time adjustment in March 2009 for the resulting increase in the interest rate swap contract liability of \$7.8 million, unrealized losses in the statement of operations of \$5.7 million, and other comprehensive loss of \$2.1 million. Gains or losses realized by TMGP through normal quarterly settlements continue to be allocated 60% to GE and 40% to the Company.

Excluding Toba Montrose and the Dokie Wind Farm expenditures, in 2010, the Company incurred and capitalized \$2,164,955 of costs associated with its Power Sites for on-going engineering and hydrological work, meeting regulatory and permitting requirements, and First Nations, community and other stakeholder consultations.

SUMMARY OF QUARTERLY RESULTS

The following table summarizes information regarding the Company's operations on a quarterly basis for the last eight quarters. The following financial information has been prepared in accordance with Canadian GAAP and is reported in Canadian dollars.

Quarter Ended	Operating Income	Loss	Loss Per common Share	Loss Per Diluted Common Share
31-Dec-10	\$948,946	\$6,232,267	\$0.10	\$0.10
30-Sep-10	-	1,644,071	0.03	0.03
30-Jun-10	-	1,822,994	0.03	0.03
31-Mar-10	-	2,104,283	0.03	0.03
31-Dec-09	-	\$3,105,114	\$0.05	\$0.05
30-Sep-09	-	2,687,812	0.06	0.06
30-Jun-09	-	2,148,508	0.05	0.05
31-Mar-09	-	11,327,177	0.26	0.26

To reflect the amendment to the TMGP Partnership Agreement made in March 2009, the Company recorded a one-time adjustment in the first quarter of 2009 and increased its share of the unrealized loss on interest rate swap contracts in the statement of operations by \$9.0 million. See Financial and Other Instruments for details on the amendment to the TMGP Partnership Agreement.

FOURTH QUARTER 2010

The Company recorded a net loss of \$6,232,267 for the quarter ended December 31, 2010 (\$0.10 loss per common share) compared to a net loss of \$3,105,114 (\$0.05 loss per common share) in the same period in 2009, an increase in net loss of \$3,127,153, as explained in the following paragraphs.

During the fourth quarter of 2010, construction of Toba Montrose was substantially completed and the Company's proportionate share of both revenue and the EcoEnergy grant post substantial completion of \$867,242 and \$81,704 respectively have been recognised in the Statement of Operations (2009: nil and nil).

Following the substantial completion of Toba Montrose, the Company began to amortize its share of Toba Montrose property plant and equipment in the fourth quarter of 2010, resulting in an increase in amortization from \$19,977 in the same period of 2009 to \$838,731 for the current 3 month period.

The Company did not expense any guarantee fees during the fourth quarter of 2010, while it expensed \$444,517 in guarantee fees during the same period in 2009. The guarantee fees for 2009 are comprised of \$294,517 in amortization of the fair value of the 650,000 warrants issued by the Company to GE in 2007 and \$150,000 in cash payments related to the 3% annual cash fee paid to GE for the \$30 million letter of credit GE had posted on behalf of the Company to TMGP lenders. The letter of credit provided by GE guaranteed the \$30 million equity contribution the Company was required to make to TMGP no later than November 1, 2010. The Company made its \$30 million contribution and as such incurred its last guarantee fee expense in November 2009.

During the fourth quarter of 2010, and following the substantial completion of Toba Montrose, the Company incurred interest expense of \$2,003,886 (2009: nil) representing the Company's proportionate share of the interest on the \$470 million TMGP loan.

Operations and maintenance costs of \$219,068 were recognized in the Statement of Operations during the three months ended December 31, 2010 (2009: nil), representing the Company's proportionate share of two months' direct operating costs of Toba Montrose.

During the fourth quarter of 2010, the Company did not expense any project evaluation costs compared to an expense of \$73,934 in the same period in 2009. The Company incurs expenditures in evaluating potential new projects. If, due to these evaluations, the Company deems a new project technically and economically feasible and intends to develop the project, it will then begin to capitalize these costs related to the project, upon receipt of an associated water or similar license. During the fourth quarter of 2009, the Company was reimbursed previous project evaluation costs that were expensed for the evaluation of the Dokie Wind Farm.

Salaries expense was \$3,451,181 in the fourth quarter of 2010 compared to \$1,981,299 in the same period in 2009, an increase of \$1,469,882. The increase is due predominately due to the payment of a long-term incentive bonus in December 2010. Share based compensation for the three month period ended December 31, 2010 of \$457,280 was largely in line with the fourth quarter of 2009 (\$453,278).

Consulting fees, general and administration, insurance, professional fees, rent, transfer agent and listing fees and travel and promotion were \$763,472 in the fourth quarter of 2010 compared to \$1,173,734 in the same period in 2009, a decrease of \$410,262. The reduction in both these costs and project evaluation costs in 2010 is due to the Company's primary focus on the Toba Montrose and Dokie Wind Farm projects, therefore costs to support the Company's expanded development and growth activities related to other power projects under development had decreased.

During the fourth quarter of 2010, the Company earned interest income of \$33,487 compared to \$38,324 in the same period in 2009, a decrease of \$4,837 due in part to lower average interest rates on lower average cash balances on hand.

Following the substantial completion of Toba Montrose, the Company commenced release of the deferred gain over the life of the EPA with BC Hydro. During the fourth quarter of 2010, other income of \$77,092 was recognized (2009: nil) in the Statement of Operations.

During the three months ended December 31, 2010, the Company recorded its 40% share of TMGP's realized loss on interest rate swap contracts of \$257,745 and an unrealized gain on the fair value adjustment of interest rate swap contracts of \$859,875 compared to a realized loss of \$257,745 and an unrealized gain of \$1,113,178 in the same period in 2009 for a total decrease in the gain of \$227,351. See Financial and Other Instruments for details on the accounting treatment of these interest rate swaps.

Excluding its proportionate share of Toba Montrose and Dokie Wind Project expenditures, during the quarter ended December 31, 2010, the Company capitalized \$304,369 of costs associated with its Power Sites for on-going engineering and hydrological work, meeting regulatory and permitting requirements, and First Nations, community and other stakeholder consultations.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2010, the Company (excluding its proportionate share of TMGP and DGP's cash) had \$5,492,926 in cash (December 31, 2009 - \$11,924,303), its proportionate interest in TMGP's cash was \$4,801,840 (December 31, 2009 - \$1,778,234), and its proportionate interest in DGP's cash was \$4,626,921 (December 31, 2009 - \$701,383), for a consolidated cash balance of \$14,921,687 (December 31, 2009 - \$14,403,920). At December 31, 2010, the Company's proportionate interest in TMGP's restricted cash was \$1,547,363 (December 31, 2009 - \$3,632,819) and its proportionate interest in DGP's restricted cash was \$8,340,905 (December 31, 2009 - \$48,230,833) for a consolidated restricted cash balance of \$9,888,268 (December 31, 2009 - \$51,863,652).

At December 31, 2010, the Company had consolidated working capital of \$8,633,592 compared to consolidated working capital of \$57,489,794 at December 31, 2009, a decrease of \$48,856,202. The

decrease is predominantly due to funding construction of the Dokie Wind Farm, the costs of which have been capitalized to property, plant and equipment. Excluding TMGP and DGP, the Company's working capital was \$2,775,952 at December 31, 2010 compared to \$13,395,163 at December 31, 2009, a decrease in working capital of \$10,619,211.

The Company's consolidated working capital, which includes its proportionate share of TMGP's and DGP's working capital, fluctuated throughout the year depending on the timing of TMGP's and DGP's construction expenditures and funding from TMGP's long term credit facilities. In 2010, the Company recorded its proportionate share of cash additions to property, plant and equipment of \$44,544,314 for the construction of Toba Montrose and its proportionate share of cash additions to property, plant and equipment of \$35,980,311 for the construction of the Dokie Wind Farm. In 2010, the Company also recorded its proportionate share of additions to intangibles of \$382,297 for the construction of Toba Montrose, and its proportionate share of additions to intangibles of \$4,201 for the construction of the Dokie Wind Farm. At December 31, 2010, the Company had recorded its proportionate share of TMGP's long term debt, being \$185,368,593. At December 31, 2010, the Company recorded its proportionate share of DGP's long term debt, being \$87,323,688, of which \$8,340,905 was held in a restricted cash account pending required payments for the Dokie Wind Farm construction and related costs.

Excluding TMGP and DGP expenditures, the Company's major cash expenditures during 2010 included \$2.8 million on power project development costs and \$8.1 million in net administrative costs. These expenditures were funded in part by the sale of the Company's investment in AltaGas for cash proceeds of \$3.1 million. Excluding TMGP and DGP expenditures, the Company's major cash expenditures during 2009 included \$14.9 million on power project development costs, \$9.1 million in net administrative costs, \$30.0 million of equity contribution in TMGP, \$26.8 million of equity contribution in DGP and a \$2.0 million acquisition cost for its equity interest in DGP. The expenditures were funded from working capital and from the \$66.6 million in net cash proceeds from the issuance of shares upon exercise of stock options and through a bought deal equity financing completed in 2009. This equity financing was co-led by Cormark Securities Inc., GMP Securities L.P. and Macquarie Capital Markets Canada Ltd. pursuant to which the lead underwriters purchased 21,000,000 common shares of the Company at a price of \$3.35 per common share for proceeds of \$66.6 million, net of commission and related costs.

Subsequent to December 31, 2010, the Company funded its \$8 million pro-rata share of the Toba Montrose cost contingency from a short-term \$8 million loan from GE.

Excluding the TMGP and DGP project financing disclosed below, the Company's main source of financing to date has been from the sale of common shares from treasury. Toba Montrose and the Dokie Wind Farm are now fully operational and are expected to generate positive cash flow during 2011. Distribution of cash flows from the partnerships to the partners requires resolution of remaining conditions in the loan agreements and conversion of the DGP construction loan to an operating loan as provided for in the loan agreement. As such, during the next twelve months, the Company will need to access additional working capital. The amount required will be dependent on the timing and results of work currently underway at both the Upper Toba Valley Project and the potential Dokie Wind Expansion Project. As well, further funds will be required for the continued development of the Company's other power projects, repayment of the \$8 million short-term loan used to fund its 40% share of TMGP's construction cost contingency, and funding of the Company's recently acquired option to earn a 10% interest in ABW Solar.

On March 7, 2011 the Company announced that Magma Energy Corp. has subscribed for a \$10 million unsecured convertible debenture from the Company, subject to regulatory approvals. The convertible

debenture will bear interest at 8% per annum and will mature on August 31, 2011 and can be convertible into the Company's common shares at any time at the option of Magma Energy Corp., at a conversion price of \$2.90 per common share. The proceeds of the convertible debenture would be used to repay the Company's \$8 million TMGP construction cost contingency loan, and for working capital purposes.

TMGP project financing

During 2007, TMGP engaged GE Capital Markets (Canada), Ltd., an affiliate of GE, and the Manufacturers Life Insurance Company to arrange the required project debt financing. The co-lead arrangers led a syndicate of financial institutions and provided TMGP with the following:

- a \$370 million, 38-year, senior secured non-recourse 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 interest rate on this credit facility was 6.288% per annum during construction and following term conversion on 25 February, 2011 is now 6.173% for the remaining term of the loan. As at December 31, 2010, the lenders had funded the full \$370 million under this credit facility of which the Company's proportionate share was \$148 million.
- a \$100 million, 38-year, senior secured credit facility with 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 interest rate on this credit facility was based on one month Canadian dollar bankers' acceptance rates during construction and following term conversion is now three months Canadian dollar banker's 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 loan. As at December 31, 2010, the lenders had funded \$100.0 million under this credit facility of which the Company's proportionate share was \$40.0 million. Concurrently with the closing of this floating rate credit 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, to effectively fix the interest rates on the floating rate facility. The construction period swap expired in November 2010.

Following the final draw down of the credit facilities in the third quarter of 2010, financing fees of \$6.7 million (which were incurred to execute the credit agreement), of which the Company's proportionate interest was \$2.7 million, have been applied proportionately against the fair value of both the fixed rate and floating rate loans, and will be accreted to the long-term debt over the period of the loans using the effective interest rate method. As at December 31, 2010, financing fees of \$168,467 have been accreted back to the loans, of which the Company's proportionate interest is \$67,387 (December 31, 2009 - \$nil and \$nil respectively).

GE, through an affiliate, provided a \$100 million equity bridge loan to TMGP. In July 2010, following commencement of commercial operations, GE invested \$100 million of equity in TMGP which has been used to repay the \$100 million equity bridge loan. TMGP paid interest to the GE affiliate on the equity bridge loan (up a cumulative maximum amount of \$15 million) payable during construction. As at December 31, 2010, TMGP had repaid the entire \$100 million under the equity bridge loan and had paid a total of \$6.8 million in interest.

DGP project financing

During 2009 DGP engaged the Manufacturers Life Insurance Company to arrange the required project debt financing. The arrangers led a syndicate of financial institutions to provide DGP with a \$175 million non-recourse loan. During 2009 the credit agreement was executed and a \$175 million Construction Loan was funded. At the Term Conversion Date, or the date at which certain conditions have been met, including substantial completion of the Dokie Wind Farm, 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 at the earliest 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 (which were incurred to execute the credit agreement), of which the Company's proportionate interest was \$2.1 million, have been applied against the fair value of 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, 2010, financing fees of \$262,760 have been accreted back to the loan, of which the Company's proportionate interest is \$134,008 (December 31, 2009 - \$nil and \$nil respectively).

CONTRACTUAL OBLIGATIONS

In 2009, the Company contributed \$30 million in equity to TMGP, which was primarily to fund an increase in capacity of the 230 KV transmission line built from the Toba Valley to Saltery Bay. The Company has the right to use, subject to a priority use agreement, any additional unused capacity of the TMGP transmission line for the Upper Toba Valley Project. In 2007, an affiliate of GE provided a \$30 million contingent equity guarantee to TMGP senior debt lenders to support the Company's \$30 million equity contribution which was made in 2009. The Company paid the GE affiliate a 3% per annum fee on the amount of guarantee provided, with the last payment made in November 2009.

In 2008, the Company extended an agreement with Knight Piesold to identify and evaluate potential run-of-river sites through to 2014. The agreement provides the Company with a right of first refusal to acquire new projects identified by Knight Piesold and also 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 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. These options expired unexercised in the second quarter of 2010.

During 2006, the Company entered into an agreement to lease premises for the Company's office space. Minimum monthly lease payments are required through 2012.

In January 2011 the Company and GE announced the acquisition of ABW Solar upon completion of construction by First Solar. Completion of construction is expected in early 2012 at which point, the Company is expected to exercise its option to make an equity contribution of approximately \$6 million to earn a 10% interest in ABW Solar.

The Company, excluding TMGP and DGP, has no other material contractual obligations for the next five years. The Company is, however, required to carry on the development work to maintain its rights to the run-of-river and wind sites. The Company can elect to abandon its run-of-river and wind sites

and in such instances, the Company would then no longer be required to fund any additional development costs.

TMGP obligations

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

During 2007, the Company transferred to TMGP Toba Montrose and related permits, licences, IBAs with the Klahoose and Sliammon First Nations and its EPA with BC Hydro. The EPA committed TMGP to supply BC Hydro with all the electricity to be generated from Toba Montrose beginning no later than November 2010 for 35 years, with annual generation of 710,000 – 730,000 MWh of electricity. The IBAs include financial commitments with respect to signing bonuses, construction access fees, continued access fees, project and training opportunities, and royalty payments. During 2008, TMGP entered into an IBA with the Sechelt First Nations with similarly structured commitments.

The Company received an Environmental Assessment Certificate from the BC EAO for Toba Montrose in April 2007. This certificate contains a number of commitments that the Company must implement throughout various phases of the project which include mitigation measures to protect wildlife and areas of cultural significance to the Klahoose, Sliammon and Sechelt First Nations. During 2007, the Company transferred this certificate and commitments to TMGP.

TMGP engaged GE Capital Markets (Canada), Ltd., an affiliate of GE, and the Manufacturers Life Insurance Company as co-lead to arrange the required project debt financing. The co-lead arrangers led a syndicate of financial institutions and provided TMGP with \$470 million of 38-year senior secured credit facilities with draw-downs to correspond with the three-year construction period and repayment over the 35-year term of the project's EPA with BC Hydro. These credit facilities are secured by TMGP's assets. As at December 31, 2010, the debt providers had advanced the entire \$470 million loans to TMGP.

TMGP executed a \$497.4 million fixed-price EPC contract with Kiewit for the construction of Toba Montrose. As at December 31, 2010, TMGP had incurred \$494.5 million under the Kiewit EPC contract.

A GE affiliate provided \$28 million of contingent equity and debt service reserve guarantees during construction of the project and a remaining \$8 million of contingent debt service reserve guarantee to TMGP debt providers during operations. TMGP is required to pay to the GE affiliate a 3% per annum fee on the amount of guarantees provided. The Company will be required to fund their pro-rata share of the construction cost contingency. Subsequent to loan term conversion on February 25, 2011, \$20 million of the contingent equity and debt service reserve guarantee were cancelled.

A GE affiliate provided an \$11.76 million letter of credit to BC Hydro as part of the EPA performance bonding requirements. TMGP is required to pay to the GE affiliate a 3% per annum fee on the face amount of the letter of credit.

DGP Obligations

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

During 2009, DGP signed an EPA with BC Hydro to supply BC Hydro with all the electricity to be generated from the Dokie Wind Farm beginning no later than March 1, 2011 for 25 years. DGP is expected to generate a long term annual average of 320,000 – 340,000 MWh of electricity.

During 2009, DGP signed MOUs with the McLeod Lake Indian Band and the Halfway River, West Moberly and Sauleau First Nations. The MOUs include payments and economic development opportunities for these First Nations during the construction and operation of the Dokie Wind Farm.

DGP engaged the Manufacturers Life Insurance Company to arrange the required project debt financing, they arranged for a syndicate of financial institutions to provide DGP with a \$175 million loan with repayments to be made from 2011 through 2030. This loan is secured by DGP's assets. As at December 31, 2010, the debt providers had advanced the entire \$175 million loan to DGP.

DGP executed a \$56.5 million fixed-price EPC contract with Mortenson to complete the construction of the Dokie Wind Farm. As at December 31, 2010, DGP had incurred \$53.0 million under the Mortenson EPC contract.

A financial institution provided two letters of credit to BC Hydro totalling \$16.3 million as part of the EPA performance bonding requirements. DGP is required to pay to this financial institution a 1% per annum fee on the face amount of the letters of credit.

During 2009, DGP signed various contracts for the maintenance and operation of the wind turbines and associated facilities and equipment.

Summary of Material Obligations

The following table presents the Company's obligations over time:

In millions	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Long-term debt to be (drawn) repaid	\$277.3	\$2.9	\$7.9	\$9.3	\$257.2
Purchase Obligations (EPC)	\$3.0	\$3.0	-	-	-
Other future obligations	\$45.6	\$6.8	\$8.0	\$7.8	\$23.0

The long-term debt and purchase obligations represent the Company's proportionate interest of 40% in TMGP and 51% in DGP. The obligations above exclude interest to be paid on the long-term debt. Furthermore, TMGP has obligations under its interest rate swap contracts which are discussed in the Financial and Other Instruments section of this MD&A.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

The Company has no material transactions with related parties.

PROPOSED TRANSACTIONS

Upper Toba Valley

In 2008, the Company and GE signed an MOU to partner on a bid to develop the run-of-river hydro-electric projects in the Toba and Bute Inlets along the southwest coast of BC. The MOU included certain terms for the development and construction of the projects.

The Company and GE jointly bid the Upper Toba Valley project into the BC Hydro 2008 RFP on November 25, 2008. 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 expected average annual generation of 315,000 MWh of electricity. On April 28, 2010, the Company and GE entered into a 40 year EPA with BC Hydro for the modified Upper Toba Valley Project. With the change in size of the Upper Toba Valley Project, the Company and GE are currently in the process of updating an assessment of the Upper Toba Valley Project.

RISKS AND UNCERTAINTIES

The ability of the Company to be a viable provider of electricity is dependent upon a number of factors and includes, but is not limited to, the following: extensive regulation by all levels of government; successful completion of hydrological and wind studies to confirm that water and wind flows are sufficient to generate enough electricity to provide a suitable return on investment for future projects; receipt and renewal of water licences; environmental and other permits to build and operate the projects; the successful negotiation of further long-term contracts with a purchaser of electricity; industry risk and competition; the ability to obtain sufficient equity and long-term debt financing to construct further projects, support from First Nations that may have a claim to the land base where the Company's projects lie; community and stakeholder support and the ability to connect the projects to the BC Hydro transmission line; successful design, construction and operation of the generation facilities and related transmission lines.

The Company is dependent upon the personal efforts and commitments of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the operations of the Company could result.

Fluctuations and changes in weather and wind patterns may impact the hydro and wind operations. Yearly actual operational results will fluctuate.

Toba Montrose and the Dokie Wind Farm are now fully operational and are expected to generate positive cash flow during 2011. Distribution of cash flows from the partnerships to the partners requires resolution of remaining conditions in the loan agreements and conversion of the DGP construction loan to an operating loan as provided for in the loan agreement. As such, during the next twelve months, the Company will need to access additional working capital. The amount required will be dependent on the timing and results of work currently underway at both the Upper Toba Valley Project and the potential Dokie Wind Expansion Project. As well, further funds will be required for the continued development of the Company's other power projects, repayment of the \$8 million short-term loan used to fund its 40% share of TMGP's construction cost contingency, and funding of the Company's recently acquired option to earn a 10% interest in ABW Solar.

On March 7, 2011 the Company announced that Magma Energy Corp. has subscribed for a \$10 million unsecured convertible debenture from the Company, subject to regulatory approvals. The convertible debenture will bear interest at 8% per annum and will mature on August 31, 2011 and can be convertible into the Company's common shares at any time at the option of Magma Energy Corp., at a conversion price of \$2.90 per common share. The proceeds of the convertible debenture would be used to repay the Company's \$8 million TMGP construction cost contingency loan, and for working capital purposes.

For further details on risks and uncertainties, see the Company's 2010 Annual Information Form.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian GAAP 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 investments, the recoverability of power project development costs, property, plant and equipment, intangible assets, impairments, the determination of the fair value of interest rate swap contracts, share-based compensation and the determination of future income taxes. Actual results could differ from the estimates and assumptions made in the preparation of these financial statements.

Investment

The Company previously accounted for its investment in the units of AltaGas as available for sale investments, with the value being based on the market price of the units and unrealized gains or losses recorded in other comprehensive income. This investment was sold in June 2010.

Power project development costs

The Company capitalizes direct costs associated with development of its power projects. If costs associated with the development of projects meet certain criteria, they are classified as intangible assets and ultimately are amortized over the useful life of the projects once commercial production commences. The criteria that the Company must demonstrate are i) technical feasibility of the project; ii) its intention to complete the project and use or sell it; iii) its ability to use or sell the project; iv) how the project will generate probable future economic benefits; v) availability of adequate technical, financial and other resources to complete the development and to use or sell the project; vi) its ability to measure reliably the expenditure attributable to the project during its development. If costs no longer meet these criteria, the costs are written off immediately.

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, 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.

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 Farm are carried at cost, which consists 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. Capitalization of net financing costs ceased at both TMGP and DGP in November, 2010 and in February 2011 respectively

Amortization of the Toba Montrose facility commenced on November 1, 2010. Amortization is recorded using the straight line method applying the estimated lives of the major facility components, which range from 2 to 70 years.

Intangible assets

Intangible assets include project permits and licenses, the EPA with BC Hydro, prepaid land tenure license amounts, and First Nations IBA and MOU costs for Toba Montrose and the Dokie Wind Farm. 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 are expensed in the statement of operations.

TMGP's prepaid land tenure licenses are amortized on a straight line basis over the 39 year term of the licenses, commencing on construction of Toba Montrose. Other TMGP intangible assets began amortization on commencement of commercial operation of Toba Montrose on a straight-line basis over the 35 year term of the EPA, applicable permits, licenses and agreements. DGP's intangible assets commenced amortization on a straight-line basis over the 25 year term of the EPA and applicable agreements following achievement of substantial completion in February, 2011.

Impairment of long-lived assets

Long-lived assets, including power project development costs, property, plant and equipment, intangible assets and investments, 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.

Determination of the fair value of interest rate swap contracts

The fair value of interest rate swap contracts are determined using current market rates and takes into account its own credit risk and the credit risk of the counterparty. See Financial and Other Instruments for details on the interest rate swap contracts.

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.

The Company uses the Black-Scholes option pricing model to calculate the fair value of stock options and compensatory warrants granted. This model is subject to various assumptions. The assumptions the Company makes will likely change from time to time. At the time the fair value is determined, the methodology the Company uses is based on historical information, as well as anticipated future events.

Determination of future 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.

FINANCIAL AND OTHER INSTRUMENTS

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 provided for monthly settlements from November 8, 2007 to November 1, 2010 (“Short Dated Interest Rate Swap”). Pursuant to the interest rate swap agreement, TMGP received 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 was 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. On May 1, 2010 the notional amount of the swap reached the maximum amount of \$100 million. TMGP and the counterparty net settled the amount owing on a monthly basis. On November 1, 2010 this interest rate swap contract expired.

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 will net settle the amount owing on a quarterly basis commencing on 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. 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 are 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. The changes in the fair value of the ineffective portion of the interest rate swap contract are recorded in the statement of operations.

In March 2009, GE and Plutonic TMP Holdings Inc. signed an amendment to the TMGP partnership agreement, which resulted in a reallocation of the gains and losses arising from the change in fair value

of the interest rate swap contracts. For the short dated interest rate swap contract, which expired in November 2010, the Company was solely liable for any gains or losses in the event of an early termination. For the long dated interest rate swap contract, which expires in June 2045, the Company would be liable for the first \$13.0 million of any gains or losses in the event of an early termination. See the Results of Operations section for details on the reallocation of the interest rate swap gains and losses. Further details on the interest rate swap contracts can be found in note 12 of the Annual Consolidated Financial Statements.

FUTURE ACCOUNTING STANDARDS

International Financial Reporting Standards (“IFRS”)

In February 2008 the Canadian Accounting Standards Board (“AcSB”) confirmed the use of IFRS to commence in 2011 for publicly-listed companies. IFRS will replace Canada’s Generally Accepted Accounting Principles (“GAAP”) and the official changeover date is for interim and annual financial statements relating to fiscal periods beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for each quarter in the year ended December 31, 2010. Accordingly, our first interim consolidated financial statements will be presented in accordance with IFRS for the three months ending March 31, 2011 with 2010 comparative results.

The following table provides a summary of the Company’s changeover plan, the key activities involved, and the current status of these tasks:

Key Activities	Current Status
<p><i>Financial Reporting</i></p> <ul style="list-style-type: none"> • Analyze and select accounting policies where alternatives are permitted, including IFRS 1 elections • Quantify key differences for opening balance sheet • Prepare IFRS consolidated financial statements, including IFRS 1 reconciliations • Quantify key differences for 2010 quarterly comparatives 	<ul style="list-style-type: none"> • The Company has completed selection of accounting policies and IFRS 1 elections. • Quantification of key differences for opening balance sheet is in the process of being finalised (see below) • Draft consolidated financial statement disclosures are nearing completion. • IFRS 1 reconciliations drafted and awaiting completion of final quantification of differences. • Quantification of key differences for comparatives is in progress.
<p><i>Training</i></p> <ul style="list-style-type: none"> • Provide technical training to key accounting personnel and management 	<ul style="list-style-type: none"> • Training program complete including Audit Committee members, and sufficient internal expertise available • Specific training has been provided on an as-needed basis during 2011 and thereafter

<p><i>Control Environment</i></p> <ul style="list-style-type: none"> • Maintain effective controls throughout the IFRS conversion process • Revise control environment for changes in processes and controls as a result of transition to IFRS 	<ul style="list-style-type: none"> • Controls have been maintained through the conversion process • Assessment of controls surrounding IFRS conversion process is underway and being documented
<p><i>Financial Information Systems</i></p> <ul style="list-style-type: none"> • Determine and implement solution for capturing IFRS information throughout 2010 while still reporting in Canadian GAAP (for comparative period) • Identify impact on financial systems and changes required 	<ul style="list-style-type: none"> • IFRS information will be maintained on spreadsheets through 2010 for opening balances and comparatives • No additional system requirements needed at current time

As at December 31, 2010, the Company has completed its scoping, planning, design, solution development and implementation.

The Company has identified key areas where changes in accounting policy are required on its transition from Canadian GAAP to IFRS listed below. This list is intended to highlight the areas that it has determined to be the most significant that will result from the transition to IFRS. Where possible the Company has quantified the impact of these changes on its Statement of Operations, Consolidated Balance Sheet and Cash-Flow Statement.

IFRS 1 – First-time Adoption of IFRS

IFRS 1, “First time adoption of International Financial Reporting Standards”, generally requires that all IFRS standards and interpretations be accounted for on a retrospective basis. IFRS 1 provides for certain optional exemptions and other mandatory exceptions to this general principle. The most significant IFRS optional exemptions which the Company expects to apply are:

Accounting Policy	IFRS 1 Exemption
IFRS 2, Share-based Payment Transactions	Full retrospective application is avoided for certain share-based payment transactions depending on the grant date, vesting terms and settlement of any related liabilities.
IFRS 3, Business Combinations	This allows an entity that has conducted prior business combinations to apply IFRS 3 on a prospective basis from the date of transition. This avoids the requirement to restate prior business combinations.
IFRIC 4, Leases	The Company may determine whether an arrangement existing at the date of transition to IFRSs contains a lease on the basis of facts and circumstances existing at that date rather than at the inception of the arrangement.

The Company has identified the following areas as having significant accounting policy changes and impact on the Company’s consolidated financial statements and disclosures when IFRS is adopted:

Investments in Joint Ventures

IAS 31 – *Investments in Joint Ventures* is currently under revision and the new standard is expected to be finalized in 2011. It is expected that IAS 31 will require investments in joint ventures to be accounted for using the equity method, although under the existing standard both equity accounting and the proportionate consolidation method are permitted. This likely change will result in the Company changing its method of accounting for its investments in TMGP and DGP from proportionate consolidation to the equity method in the future.

The Company will therefore account for its investments in joint ventures from the inception of the investment using the equity method. This will result in significant changes in the presentation of the statement of financial position and the statement of operations. Net earnings/loss and net assets are not expected to differ as a result of applying the equity method of accounting. However, the balances of each line item on the statement of financial position and the statement of operations are expected to change significantly.

The Company has identified that the deferred gain on the transfer of assets to TMGP that is currently recognized on the balance sheet will be eliminated on transition resulting in an increase of \$16,189,088 in retained earnings / deficit at 1 January, 2010.

Financial Instruments

IAS 39 – *Financial Instruments* will be applied prospectively in the opening IFRS statement of financial position as this is required under IFRS 1 as a mandatory exemption. The cash flow hedge currently held by TMGP is tested for effectiveness on a quarterly basis. Under Canadian GAAP, the effectiveness of the hedge is tested without consideration for the credit risk of the party or counter-party (depending on whether the hedge is in an asset or a liability position). Under IAS 39, the effectiveness of the hedge needs to be tested considering the credit risk of the party or counter-party. This may result in the hedge becoming ineffective or a change to the amount of the hedge that is effective and ineffective. The Company has put in place the appropriate IAS 39 compliant hedging documentation at January 1, 2010 and the hedge continues to be effective on January 1, 2010.

The impact on the opening balance sheet as a result of the credit adjusted risk on the interest rate swap is expected to result in a credit to Other Comprehensive Income and a reduction in retained earnings / deficit by approximately \$180,000.

Share-Based Compensation

IFRS 2– *Share Based Payments* will be applied prospectively in the opening IFRS statement of financial position, as the Company has elected to apply the IFRS 1 exemption. Under IFRS each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches. Currently under Canadian GAAP these awards are calculated as one grant and the resulting fair value is recognized on a straight-line basis over the vesting periods.

The impact on the consolidated financial statements on January 1, 2010 on adoption of IFRS 2 is expected to result in a circa \$560,000 increase in contributed surplus. With an additional \$60,000 (approximately) charged to power project development costs and the remaining balance taken as an opening adjustment to retained earnings / deficit.

Accounting For Service Concession Arrangements

IFRIC 12 – *Service Concession Arrangements*: The standard applies to a situation whereby a private sector entity constructs and / or operates an infrastructure used to provide public services.

The Company has completed its assessment of IFRIC 12 and has concluded that the DGP EPA with BC Hydro is considered a service concession arrangement. The Company is in the process of finalising the impact of this change on its consolidated financial statements as at January 1, 2010.

The discussion above on IFRS outlines to the reader the Company's IFRS conversion project and the potential effect on the consolidated financial statements. This information does not present the official adoption of IFRS by the Company and is intended only to provide an indication of the major differences identified to date based on current IFRS guidance, relative to the Company's GAAP accounting policies at the transition date. The proposed IFRS 1 optional exemptions, the selection of IFRS accounting policies and any related adjustments to the consolidated financial statements are in the process of being finalized and audited. As a result, the discussion noted above is subject to change.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

In compliance with the requirements of National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, the Certifying Officers have reviewed and certified the Consolidated Financial Statements for the year ended December 31, 2010, together with other financial information included in the Company's annual securities filings. The Certifying Officers have also certified that disclosure controls and procedures have been designed to provide reasonable assurance that material information relating to the Company is made known within the Company and that they operated effectively during the year.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the Company's internal controls over financial reporting during the year ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. Management will continue to update controls as necessary as the Company continues to transition from a development stage company to a production stage company, and on full adoption of IFRS in 2011. Future changes to internal controls over financial reporting may be deemed to be a material modification (either individually or when considered collectively) and therefore any material changes to internal controls over financial reporting will be disclosed as they occur.

DISCLOSURE OF OUTSTANDING SHARE DATA

As at March 15, 2011, the Company had the following common shares, stock options and warrants outstanding:

Common shares	65,481,182
Stock options (vested and unvested)	5,788,599
Warrants	-
Fully Diluted common shares outstanding	71,269,781