

PLUTONIC POWER CORPORATION

Consolidated Financial Statements

For the Years Ended December 31, 2005 and 2004
and Auditors' Report

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Plutonic Power Corporation and all information in this annual report are the responsibility of management. The 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 has reviewed the financial information presented throughout this report and has ensured it is consistent with the financial statements.

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.

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

"Donald A. McInnes"

Donald A. McInnes
President

"Peter Wong"

Peter Wong
Chief Financial Officer

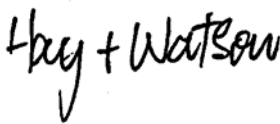
AUDITORS' REPORT

To the Shareholders of Plutonic Power Corporation

We have audited the balance sheets of Plutonic Power Corporation as at December 31, 2005 and 2004 and the consolidated statements of loss and deficit, power project expenditures and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial positions of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Vancouver, British Columbia
March 15, 2006

PLUTONIC POWER CORPORATION

Consolidated Balance Sheets As at December 31, 2005 and 2004

	2005	2004
ASSETS		
Current		
Cash	\$ 20,195	\$ 1,923,424
Accounts receivable	144,425	31,235
Marketable securities	6,250	-
Prepaid expenses	3,500	5,000
	174,370	1,959,659
Power Projects (Note 3 and 4)	3,838,692	1,803,706
Equipment (Note 6)	4,506	6,437
	\$ 4,017,568	\$ 3,769,802
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 620,953	\$ 104,250
Payable to related party (Note 7)	67,832	-
	688,785	104,250
Future Income Taxes	567,000	567,000
	1,255,785	671,250
SHAREHOLDERS' EQUITY		
Share Capital (Note 8)	4,001,939	3,802,368
Contributed Surplus (Note 8)	566,140	219,058
Deficit	(1,806,296)	(922,874)
	2,761,783	3,098,552
	\$ 4,017,568	\$ 3,769,802

APPROVED BY THE BOARD:

“Donald A. McInnes” Director

“R. Stuart Angus” Director

PLUTONIC POWER CORPORATION

Consolidated Statements of Loss and Deficit For the Years Ended December 31, 2005 and 2004

	2005	2004
Expenses		
Amortization	\$ 1,931	\$ 1,136
Dues and subscriptions	5,496	3,278
Project evaluation	16,719	-
Management fees	173,240	42,873
Office	35,809	23,608
Professional fees	64,359	55,659
Rent	45,384	21,162
Share-based compensation (Note 8)	383,082	187,745
Support services	71,689	19,350
Transfer agent and listing fees	18,016	43,923
Travel and promotion	102,284	39,335
Loss before the following	918,009	438,069
Interest Income	(12,572)	(752)
Tide Property Costs (Recovered) Written off (Note 5)	(22,015)	30,000
NET LOSS	883,422	467,317
DEFICIT, Beginning of Year	922,874	455,557
DEFICIT, End of Year	\$ 1,806,296	\$ 922,874
BASIC AND FULLY DILUTED LOSS PER SHARE	\$ 0.07	\$ 0.07
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	12,620,203	6,739,765

PLUTONIC POWER CORPORATION

Consolidated Statements of Cash Flows For the Years Ended December 31, 2005 and 2004

	2005	2004
Cash provided by (used in)		
Operating activities		
Net loss	\$ (883,422)	\$ (467,317)
Items not requiring (providing) cash		
Amortization	1,931	1,136
Stock-based compensation	383,082	187,745
Tide Property costs (recovered) written off	(6,250)	30,000
	(504,659)	(248,436)
Changes in non-cash working capital components		
Accounts receivable	(113,190)	(27,574)
Prepaid expenses	1,500	11,000
Accounts payable and accrued liabilities	516,703	91,188
Payable to related party	67,832	-
	(31,814)	(173,822)
Investing Activities		
Power project expenditures	(1,928,726)	(1,158,306)
Equipment	-	(7,573)
	(1,928,726)	(1,165,879)
Financing Activities		
Common shares issued for cash	58,750	2,914,534
Share issue costs	(1,439)	(244,398)
	57,311	2,670,136
(Decrease) Increase in Cash	(1,903,229)	1,330,435
CASH, Beginning of Year	1,923,424	592,989
CASH, End of Year	\$ 20,195	\$ 1,923,424
Supplementary Information on Non-Cash Transactions		
Shares issued for mineral property interests	\$ -	\$ 30,000
Shares issued for acquisition of subsidiary company	106,260	490,400
Shares received for mineral property interests	22,015	-
Future income taxes – flow through share renunciation	-	567,000

PLUTONIC POWER CORPORATION

Consolidated Statements of Power Projects For the Years Ended December 31, 2005 and 2004

	Toba / Montrose	Rainy River	Hope Projects	Other	Total
Balance, January 1, 2004	\$108,875	\$15,788	\$30,337	\$ -	\$155,000
Acquisition costs	591,365	92,272	190,749	35,555	909,941
Consulting	2,632	30,195	43,389	205,373	281,589
Engineering	5,618	32,321	33,686	75,939	147,564
Interconnection and bid costs	-	10,035	6,561	119,356	135,952
Hydrology	-	6,785	26,182	55,445	88,412
Other	1,172	8,161	13,343	62,572	85,248
Balance, December 31, 2004	709,662	195,557	344,247	554,240	1,803,706
Acquisition costs	41,800	15,183	20,455	28,822	106,260
Consulting	166,764	41,491	39,407	90,422	338,084
Engineering	298,855	100,405	27,365	190,825	617,450
Environmental	439,626	20,123	4,307	-	464,056
Interconnection and bid costs	114,120	41,813	85,288	8,675	249,896
Hydrology	98,816	18,298	15,072	59,971	192,157
Other	29,833	7,222	8,728	21,300	67,083
Balance, December 31, 2005	\$1,899,476	\$440,092	\$544,869	\$954,255	\$3,838,692

PLUTONIC POWER CORPORATION

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

1. OPERATIONS

Plutonic Power Corporation and its wholly owned subsidiary company, Plutonic Hydro Inc., collectively (the "Company") are incorporated in the Province of British Columbia, Canada. The Company's principal business operations are the acquisition, construction and operation of independent hydroelectric run of river projects in British Columbia.

These consolidated financial statements have been prepared on the basis that the Company is a going concern, which presumes that the Company will continue operations for the foreseeable future and will be able to realize assets and discharge liabilities in the normal course of business. The ability of the Company to continue as a going concern is dependent on obtaining additional financing through the issue of treasury shares and debt financing to finance its working capital, development costs, water and other licences, financing the construction and securing power contracts for its projects. These consolidated financial statements do not reflect the adjustment or reclassifications which would be necessary if the Company was unable to continue operations.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared on the basis of Canadian generally accepted accounting principles, which include the following significant policies:

Consolidation

These consolidated financial statements include the accounts of Plutonic Power Corporation and its wholly owned subsidiary company, Plutonic Hydro Inc. Inter-company transactions and balances are eliminated upon consolidation.

Power Project Development Costs

The Company accumulates costs associated with its hydroelectric run of river power projects. Costs associated with successful projects are reclassified as capital assets and amortized over the useful life of the projects. Costs of unsuccessful projects are written off in the year the project is abandoned.

Recovery of power project development costs is dependent upon the successful completion of the projects. The success of the projects is dependent upon receiving the necessary water and other licences, the ability of the Company to obtain the necessary financing to successfully complete the development and construction of the projects, the ability to economically generate electrical power and its ability to sell the electricity generated on a profitable basis.

Equipment

Equipment is recorded at cost. Amortization is recorded using the declining balance method at an annual rate of 30%.

PLUTONIC POWER CORPORATION

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The Company follows the liability method of accounting for income taxes. Using this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements of the Company and their respective tax bases, using enacted income tax rates. The effect of a change in income tax rates on future tax liabilities and assets is recognized in income in the period in which the change occurs. A future income tax asset is recorded when the probability of the realization is more likely than not.

Flow-Through Shares

The Company has issued certain common shares and, pursuant to the provisions of the Income Tax Act Canada, has transferred the tax deductions related to power prospect and project costs to the subscribers of these shares. Under these circumstances, share capital is reduced and a future income tax liability is recorded for the estimated future income taxes payable by the Company as a consequence of the transfer of these deductions.

Share-based Compensation

The Company uses the fair value method of accounting for options granted under its stock-based compensation plan. Under the fair value method, 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.

Asset retirement obligations

The Company recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of fair value can be determined. These costs are capitalized as part of the carrying value of the power projects. The liability is accreted over the estimated time period until settlement of the obligation and the asset is amortized over its estimated useful life.

The estimated fair value of the asset retirement obligations for the Company's power projects is nominal. Accordingly, no provision has been made for the asset retirement obligation.

Loss per Share

The basic loss per share is calculated on the basis of the weighted average number of common shares of the Company that were outstanding in each reporting period. The diluted loss per share includes the potential dilution from share purchase options and warrants using the treasury stock method 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 period.

PLUTONIC POWER CORPORATION

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting year. Actual results could differ from these estimates due to factors such as changes in economic conditions, regulatory approvals and negotiations with other parties.

3. ACQUISITION OF PLUTONIC HYDRO INC.

In 2004, the Company acquired all the outstanding shares of Plutonic Hydro Inc. for \$490,400 through the issue of 1,532,500 common shares with a deemed value of \$0.32 per share. The Company used the purchase method of accounting for the acquisition. The net assets acquired on the purchase of Plutonic Hydro Inc. were:

Cash and accounts receivable	\$ 35,572
Power prospect development costs	654,587
Liabilities	<u>(707,309)</u>
	(17,150)
Deemed value of shares issued	<u>490,400</u>
Net acquisition cost of power projects	<u>\$507,550</u>

In 2005, the Company issued an additional 332,063 of its common shares with an assigned value of \$106,260 in connection with this acquisition.

On the power projects acquired and located in the Bute Inlets, the Company is required to pay a bonus within 30 days of the later of securing construction financing and the commencement of construction. The bonus, payable in shares or cash, at the Company's option, is to be calculated as \$1,000 per GWh per year of electricity to be generated on each of these projects.

4. POWER PROJECTS

To-date, the Company has accumulated costs on 19 power projects located in primarily in the South-west of British Columbia. The Company's most advanced projects are as follows:

East Toba and Montrose Creeks, Green Power Corridor

East Toba and Montrose power projects are located at the headwaters of the Toba Inlet on the East Toba River and Montrose Creek. Installed capacity of the two projects is expected to be 196 MW with an expected annual energy generation of 657 gigawatt hours of energy per year.

PLUTONIC POWER CORPORATION

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

4. **POWER PROJECTS (continued)** **East Toba and Montrose Creek , Green Power Corridor (continued)**

In January 2006, the Company filed an application for an Environmental Assessment Certificate with the British Columbia Environmental Assessment Office for these two power projects. The Company anticipates the issuance of an Environmental Assessment Certificate within 180 days of filing the application.

The Company completed an interconnection study for this project in 2005.

Rainy River, Howe Sound Project

The Rainy River power project is located near Gibsons, British Columbia. The initial design is for an installed capacity of 15MW with the potential to generate approximately 55 gigawatt hours per year.

In 2004, the Company entered into an agreement with the Howe Sound Pulp and Paper Limited Partnership (“HSLP”) to jointly develop a hydro electric generating plant at Rainy River. The Company will have an 80% interest in the cash flow from the project after receiving full repayment of its costs plus a 10% fee in connection with the construction of the plant, including interest at prime plus 4% per annum (calculated quarterly). HSLP will have the remaining 20% interest in the cash flow of the project.

In August 2005, the Company submitted a Water Power Development Plan (“WPDP”) for this power project. The purpose of the WPDP is to provide Land and Water British Columbia (LWBC) and other permitting agencies, the information that fully defines the project. The government review and decision making process is expected to be completed by mid-2006 and, once complete, a decision will be made on the issuing of a Water Licence and Crown Land Tenure that would allow for the development of this project. The Company completed an interconnection study for this project in 2005.

Ruby/Garnet Creek, Hope Project

Located near Hope, British Columbia, the Ruby/Garnet Creek Project has an initially designed installed capacity of 24MW with the potential to generate approximately 87 gigawatt hours of energy per year.

The Company completed an interconnection study for this project in 2005.

Emory Creek, Hope Project

Located near Hope, British Columbia, the Emory Creek Project has a designed installed capacity of 6.5 MW with the potential to generate approximately 28 gigawatt hours of energy per year.

The Company completed an interconnection study for this project in 2005.

PLUTONIC POWER CORPORATION

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

5. MINERAL PROPERTY

The Company entered into an agreement in 2002 with Rimfire Minerals Corporation (“Rimfire”) to acquire a 51% undivided legal and beneficial interest in the Tide Property, located in the Skeena Mining Division, British Columbia. In November 2003, the Company granted Serengeti Resources Inc. (“Serengeti”) an option to assume its rights and obligations under the Tide property agreement with Rimfire. Serengeti has agreed, in addition to assuming the Company’s obligations to Rimfire, to issue 50,000 common shares to the Company on regulatory approval and an additional 25,000 common shares on each anniversary of the agreement until it acquires the 51% interest in property. Serengeti will also issue 1,000,000 shares or pay \$2,000,000 to the Company on the commencement of production.

The Company wrote off the costs it had incurred on the Tide property on December 31, 2003 and wrote off the value of shares it issued to Rimfire in March 2004 as consideration for that company’s acceptance of the Serengeti option. The Company has received a total of 100,000 Serengeti common shares to date.

6. EQUIPMENT

	Cost	Accumulated Amortization	2005 Net Book Value	2004 Net Book Value
Computer equipment	\$ 7,573	\$ 3,067	\$ 4,506	\$ 6,437

7. RELATED PARTY TRANSACTIONS

Substantially all of the Company’s administrative operations are performed by a company owned by a director of the Company. This related company charged fees and received a bonus totalling \$173,240 (2004 - \$149,020) for these services during 2005 and was owed \$67,832 (2004 - \$nil) at December 31, 2005.

PLUTONIC POWER CORPORATION

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

8. SHARE CAPITAL

Authorized

100,000,000 common shares without par value

10,000,000 preferred shares without par value, issuable in series

Issued and outstanding

	Number of Shares	Amount
Common shares		
Issued and fully paid		
Issued for cash on incorporation	1	\$ 1
Issued for cash	999,999	99,999
Issued for cash, net of share issue costs of \$59,541	1,300,000	200,459
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Balance June 30, 2003	2,300,000	300,459
Share consolidation 2 to 1	(1,150,000)	-
Issued for cash, net of share issue costs of \$19,127	2,500,000	480,873
Issued for mineral properties	50,000	10,000
Issued for cash on the exercise of warrants	60,000	15,000
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Balance December 31, 2003	3,760,000	806,332
Issued for mineral property	100,000	30,000
Issued for cash, net of share issue costs of \$811,398	5,529,169	2,145,036
Issued for cash on exercise of warrants and options	1,205,000	330,600
Issued for acquisition of Plutonic Hydro Inc. (Note 3)	1,532,500	490,400
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Balance, December 31, 2004	12,126,669	3,802,368
Issued for acquisition of Plutonic Hydro Inc. (Note 3)	332,063	106,260
Share issue costs	-	(1,439)
Issued for cash on exercise of options	226,250	58,750
Exercise of vested options	-	36,000
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Balance, December 31, 2005	12,684,982	\$ 4,001,939

Subsequent to December 31, 2005, the Company arranged a non brokered private placement of 3.1 million units at a price of \$0.80 per unit. Each unit will consist of one common share and one-half of one share purchase warrant. Each full warrant will entitle the holder to purchase one additional common share at \$1.25 per share within one year of the issue of the units and at \$1.75 per share within the subsequent year.

689,625 of the issued common shares are subject to escrow restrictions.

The Company grants share purchase 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 has reserved 20% of the outstanding common shares for issue of share purchase options under this plan.

PLUTONIC POWER CORPORATION

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

8. SHARE CAPITAL (continued)

The exercise price of share purchase options will be no less than the closing price of shares on the business day immediately preceding the date on which the option is granted. Once approved, options will normally vest at the rate of 25% on the date of the grant and 25% every six months thereafter. Options will expire no later than five years from the grant date, except that they will expire within ninety days when the holder is no longer qualified to hold the option (other than for cause, when the option will expire immediately).

A summary of share option activity and information concerning outstanding and exercisable options at December 31, 2005 is as follows:

	Options granted	Weighted Average Exercise Price
Balances, December 31, 2003	740,000	\$0.20
Options granted	1,532,000	\$0.52
Options exercised	(15,000)	\$0.20
Balances, December 31, 2004	2,257,000	\$0.42
Options granted	150,000	\$0.80
Options exercised	(226,250)	\$0.26
Balances, December 31, 2005	2,180,750	\$0.46

The following table summarizes information concerning outstanding and exercisable options at December 31, 2005:

Grant date	Expiry date	Number Outstanding	Weighted Average Exercise price	Weighted Remaining Contractual life (in years)	Number Exercisable	Weighted Average Exercise price
May 17, 2004	May 17, 2009	669,500	\$0.32	3.38	669,500	\$0.32
Sept 8, 2003	Sept 8, 2008	611,250	\$0.20	2.69	611,250	\$0.20
Sept 29, 2004	Sept 29, 2009	150,000	\$0.65	3.75	112,500	\$0.65
Nov 23, 2004	Nov 23, 2009	600,000	\$0.75	3.90	450,000	\$0.75
Sept 1, 2005	Sept 1, 2010	150,000	\$0.80	4.67	37,500	\$0.80
		2,180,750	\$0.46	3.44	1,880,750	\$0.41

The weighted average grant-date fair value of stock options granted during 2005 and 2004 was \$0.49 and \$0.34 respectively. The Company determines the fair value of the options granted using a Black-Scholes option pricing model, recognizing forfeitures as they occur, using the following weighted average assumptions:

	2005	2004
Risk-free interest rate	4.0%	2.5%
Expected life (years)	3	3
Expected volatility	96%	630%
Expected dividend yield	Nil	Nil

PLUTONIC POWER CORPORATION

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

8. SHARE CAPITAL (continued)

The following warrants to purchase common shares are outstanding at the date of these financial statements:

Number of Shares	Price Per Share	Expiry Date	Issue Date
2,270,000	\$0.31	May 16, 2006	May 16, 2004
508,000	\$1.10	December 23, 2006	December 23, 2004
1,092,000	\$0.90	December 23, 2006	December 23, 2004
272,770	\$1.25	December 23, 2006	December 23, 2004
4,142,770			

Subsequent to December 31, 2005, the Company issued 430,000 common shares pursuant to the exercise of warrants for cash proceeds of \$133,300.

The total contributed surplus and related share-based compensation expense included in these financial statements for director and employee options which have vested is:

Contributed Surplus

Balance, December 31, 2003	\$	31,313
Share-based compensation expense		187,745
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Balance, December 31, 2004		219,058
Share-based compensation expense		383,082
Exercise of vested options		(36,000)
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Balance, December 31, 2005	\$	566,140

9. INCOME TAXES

The Company's future income tax assets and liabilities are:

	December 31	
	2005	2004
Future income tax assets		
Equipment	\$ 1,070	\$ 430
Tax loss carry forwards	406,600	250,200
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Total future income tax assets	407,670	250,630
Valuation allowance	(407,670)	(250,630)
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Net future income tax assets	\$ -	\$ -
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Future income tax liabilities		
Expense renunciation on flow-through share proceeds	\$ 567,000	\$ 567,000
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PLUTONIC POWER CORPORATION

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

9. INCOME TAXES (continued)

The reconciliation of the provision for income taxes is:

	Years Ended December 31	
	2005	2004
Loss before income taxes	\$ 883,422	\$ 467,317
Statutory tax rate	34.9%	37.6%
Recovery of income taxes based on statutory income tax rates	\$ 307,960	\$ 175,710
Deduct:		
Tax effect of current period losses not recognized	(175,300)	(104,270)
Non-deductible expenses	(132,660)	(71,440)
Income taxes	\$ -	\$ -

At December 31, 2005, the Company has unrecognized non-capital losses for income tax purposes of approximately \$1,130,000 that may be used to offset future taxable income.

10. FINANCIAL INSTRUMENTS

The carrying values of the Company's financial instruments, which are cash, accounts receivable and accounts payable, on the balance sheet, approximate their respective fair values.