PLUTONIC POWER CORPORATION

THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2008

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 unaudited consolidated financial statements of Plutonic Power Corporation ("Plutonic" or "the Company") for the three and six month periods ended June 30, 2008. 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 August 14, 2008. Additional information and disclosure relating to the Company can be found on SEDAR at **www.sedar.com**

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.

OVERVIEW

Plutonic Power Corporation and its wholly owned subsidiary companies, Plutonic Hydro Inc., Plutonic TMP Holdings Inc., and Upper Toba Hydro Inc., are incorporated in the Province of British Columbia, Canada. The Company is a reporting issuer in British Columbia, Alberta, and Ontario 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 ultimately, the operation of economically viable clean power projects. The Company has a current portfolio of 40 run-of-river hydroelectric sites (Power Sites) in British Columbia (BC) with two Power Sites under construction and the remaining 38 Power Sites at various stages of evaluation, permitting and development. The Company is focused on a growth and development path to become a leading supplier of clean electricity.

The Company's 40 Power Sites have a total potential generation capacity of approximately 1,903 megawatts (MW) with the potential to generate approximately 6,335 gigawatt hours (GWh) of electricity annually.

OUTLOOK

British Columbia Hydro and Power Authority (BC Hydro) issued the Clean Power Call Request for Proposals (BC Hydro 2008 RFP) on June 11, 2008 for 5,000 GWh per year of seasonal and hourly firm energy to help ensure that the Province of British Columbia has sufficient electricity to meet its electricity needs by 2016. The BC Hydro 2008 RFP aligns with the BC Energy Plan released in 2007 which indicates that at least 90 per cent of all electricity will be clean and generated in the Province of BC. The BC Hydro 2008 RFP is structured to allow limited negotiation regarding the terms of the Electricity Purchase Agreement (EPA) with some proponents if applicable. BC Hydro has proposed November 25, 2008 as the deadline for submission of proposals with EPA awards scheduled for mid April 2009 through June 2009.

In preparation for the submission of proposals under the BC Hydro 2008 RFP, the Company continues engineering, hydrological, environmental and permitting studies for its development projects located primarily in the Toba and Bute Inlet areas. Subject to the results of First Nations and local community consultation, permitting and feasibility work, the Company expects to submit a portfolio of as much as 1,000 MW of capacity into the BC Hydro 2008 RFP.

PROJECT UPDATES

East Toba River and Montrose Creek Project Under Construction (Green Power Corridor™)

During 2007, the Company and its partner, GE Energy Financial Services Holding Company (GE), formed Toba Montrose General Partnership (TMGP), a general partnership formed under the laws of the Province of British Columbia, to finance, build and operate the 196 MW East Toba River and Montrose Creek run-of-river generation facilities (Toba/Montrose) located in the Toba Valley, British Columbia. This includes approximately 150 km of transmission line to connect these two generation facilities to a new British Columbia Transmission Corporation's substation to be located at Saltery Bay.

During the fourth quarter of 2007, the Company and GE made their respective partners' contributions, arranged the required project debt financing and guarantees which totalled approximately $660 million and began construction of the Toba/Montrose project under the terms of TMGP's Engineering, Procurement and Construction (EPC) contract with its contractor Peter Kiewit Sons Co. (Kiewit) with scheduled completion of the project in 2010. These two generation facilities have a combined design capacity of 196 MW and are expected to generate an average of 745 GWh of electricity annually.

As at June 30, 2008, Kiewit had completed 31% of the contracted work under the EPC contract, including the necessary infrastructure and road access to the two generation facilities. TMGP is on budget and on schedule to commence delivery and sale of electricity to BC Hydro in 2010 under a 35-year EPA. The plan for the remainder of 2008 is to commence construction of the powerhouses, prepare for the intake diversions, complete all right of way clearing for the transmission line and complete up to 60 km of transmission line conductor. The project maintains a high health, safety and environmental standard, which is confirmed by independent inspection. To date, approximately 350,000 man-hours have been spent on the EPC contract with no lost time accidents. Currently, 21% of the workforce on site is from First Nations communities and programs are in place to support training for near and long term job placement. First Nation contracting alliances for camp catering, right of way clearing and barging are meeting the project requirements of the Impact Benefit Agreements (IBA) with 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%. The Company accounts for its investment in TMGP using the proportionate consolidation method of accounting whereby the Company records its 40% share of assets, liabilities, revenues and expenses of TMGP.

The Company is required to contribute $30 million in equity on or before the earlier of the date TMGP's senior debt facilities have been fully drawn and November 1, 2010. The additional $30 million equity contribution in TMGP is primarily to fund an increase in capacity of the 230 kilovolt (KV) transmission line to be built from the Toba Valley to Saltery Bay. The Company will have the right to use, subject to a priority use agreement, any additional unused capacity of the transmission line for its three additional

Upper Toba Valley Power Sites. In the interim, an affiliate of GE provided a $30 million guarantee to TMGP senior debt lenders in respect of the Company's $30 million equity contribution in 2010. In return, the Company granted GE the right to negotiate financing on up to an additional 200 MW of other hydroelectric power projects of the Company in British Columbia and issued to the GE affiliate 650,000 two year common share purchase warrants of the Company with an exercise price of $9.03 per common share. The Company pays the GE affiliate a 3% per annum fee on the amount of guarantee provided.

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

During 2007, the Company applied on behalf of TMGP for an incentive of one cent per kilowatt-hour for up to 10 years for eligible low-impact, renewable electricity projects constructed over the next four years from April 1, 2007 to March 31, 2011 from ecoENERGY, a Canadian federal government program to encourage construction of renewable and green projects. The Company has been notified that the project has passed basic qualification criteria and the environmental assessment documents are currently being reviewed as part of the application review process.

Upper Toba Valley Project (Green Power Corridor™)

The Upper Toba Valley project, with three Power Sites, has combined potential generation capacity of 133 MW and potential annual electricity generation of 466 GWh. These three Power Sites are located near the headwaters of Toba Inlet, approximately 100 km north of Powell River, BC and were added to the Company's portfolio during 2007.

During 2007, the Company successfully completed Stages One and Two towards securing a Water License and Crown Land rights from the Water Stewardship Division, Ministry of the Environment (MOE) and the Integrated Land Management Bureau, Ministry of Agriculture and Lands (ILMB) for these three Power Sites. The Company submitted the Upper Toba Valley project to the BC Environmental Assessment Office (EAO) for the construction of three run-of-river generation facilities, each of which is located on Dalgleish Creek, Jimmie Creek and the Upper Toba River. The EAO issued a Section 10 order that binds the Upper Toba Valley project to the Environmental Assessment Act and a Section 11 order that sets the process the environmental assessment must follow.

The Company has the right to use, subject to a priority use agreement, any additional unused capacity of the transmission line being built for TMGP for its wholly owned Upper Toba project.

As a provision in the IBA, the Klahoose First Nation extends their support for the development of this project subject to the granting of a BC environmental certificate.

Bute Inlet Project (Green Power Corridor™)

The Bute Inlet project, encompassing 18 Power Sites, has a combined potential generation capacity of 914 MW and potential annual electricity generation of 2,980 GWh. Nine of these 18 Power Sites were added during 2007.

The Company successfully completed Stages One and Two towards securing a Water License and Crown Land rights from MOE and ILMB for all of the new Power Sites added in 2007.

During April 2008, the Company submitted its Bute Inlet project into the Environmental Assessment Process. The EAO has issued a Section 10 order that binds the project to the Environmental Assessment Act.

An updated version of the Bute project description was also submitted to the Canadian Environmental Assessment Agency (CEAA) and the new Major Projects Management Office (MPMO) on May 7, 2008, which conforms to their new guidelines.

The Bute project proposal submitted to the EAO is for the construction of 18 run-of-river generating facilities, organized into three interconnected groups. Eight of the facilities will be located in or near the Homathko River system, seven in the Southgate River system and three in the Orford River system.

The current Bute project configuration is to interconnect each group of facilities with a 230 KV transmission line to a substation near the mouth of the Southgate River. From the substation the electricity will be carried by a 360 KV transmission line to one of two points of interconnection to the BCTC grid, one at the Malaspina substation near Earl’s Cove or one at the Campbell River substation on Vancouver Island. The preferred transmission route has not yet been selected. Ultimate Bute project design and configuration including access roads and related infrastructure will be determined in conjunction with First Nation and local community consultation, interconnection studies and upon completion of consultation with the appropriate Federal, Provincial and local governmental authorities on environmental, social and electrical impacts.

Knight Inlet Project (Green Power Corridor™)

The Knight Inlet area, with six Power Sites, has a combined potential generation capacity of 152 MW and potential annual electricity generation of 451 GWh. The Company continues to conduct engineering and hydrological studies, consult with First Nations, community and other stakeholders, proceed with permitting and perform other required studies.

Europa Project

In April 2005, the Company successfully completed Stages One and Two towards securing a Water License and Crown Land rights from MOE and ILMB for this project.

In April 2006, the Company submitted the Europa Creek project into the British Columbia Environmental Assessment Permitting Process, with the EAO consequently issuing a Section 10 order binding the project to the Environmental Assessment Act.

In May of 2008, the BC government introduced legislation to finalize the boundaries of conservancy areas in the central and north coast. These boundaries, and the conditions which preclude any type of power production, impact the Europa project. Clarification of BC government policy is ongoing.

Freda Project

In August 2005, the Company successfully completed Stages One and Two towards securing a Water License and Crown Land rights from MOE and ILMB for the development of this project.

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

Rainy River and Hope projects

During the first quarter of 2008, the Company sold the Rainy River and Hope Power Sites to AltaGas Income Trust (AltaGas) and received 180,433 special purchase warrants of AltaGas with each warrant entitling the Company to receive one fully paid AltaGas trust unit on January 1, 2010 at no additional cost. The Company valued these restricted warrants at their fair value using a Black-Scholes option pricing model and as a result, the Company wrote down the amount of development costs recorded for the Rainy River and Hope Power Sites to their fair value at December 31, 2007.

RESULTS OF OPERATIONS

Three months ended June 30, 2008, compared to the three months ended June 30, 2007

The Company recorded a net loss of $3,686,335 for the quarter ended June 30, 2008 ($0.09 loss per share) compared to a net loss of $2,704,232 ($0.07 loss per share) in the same period in 2007, an increase in net loss of $982,103. The Company incurred higher operating costs due to the following:

During the three months ended June 30, 2008, the Company recorded its 40% share of TMGP's realized loss on interest rate swap contracts of $23,362 and an unrealized loss on the fair value adjustment of interest rate swap contracts of $895,137 compared to nil in the same period in 2007. TMGP entered into two interest rate swap contracts related to its $100 million floating rate credit facility which will be drawn during the approximately three year construction phase and is to be repaid during the operating term of 35 years. TMGP records changes in the fair value of these interest rate swap contracts to earnings. TMGP entered into these two interest rate swap contracts to fix the effective interest rate that will be paid over the term of the floating rate credit facility.

Share-based compensation expense was $1,045,942 in the second quarter of 2008 compared to $2,056,690 in the same period in 2007, a decrease of $1,010,748. The Company recorded a higher number of vested options in 2007 compared to 2008.

Salaries expense and management fees were $703,860 in the second quarter of 2008 compared to $297,103 in the same period in 2007, an increase of $406,757. The Company had a higher number of officers, managers and administrative staff in 2008 in line with the growth of the Company and the number of projects under development.

The Company recorded $372,259 in guarantee fees during the second quarter of 2008 compared to nil in the comparative period. The guarantee fees are comprised of $147,259 in amortization of the fair value of the 650,000 warrants issued by the Company to GE in 2007 and $225,000 in cash payments related to the 3% annual cash fee paid to GE for the $30 million letter of credit GE has posted on behalf of the Company to TMGP lenders. The letter of credit provided by GE guarantees the $30 million equity contribution the Company is required to make in TMGP no later than November 1, 2010.

Consulting fees, office costs, rent, professional fees and travel and promotion all increased to support the Company's increased development activities related to its run-of-river power projects, the increased number of power projects under development and to support financing of the Company's working capital and project development costs.

During the second quarter of 2008 the Company expensed $35,144 on project evaluation costs compared to $130,695 in the same period in 2007. The Company will incur expenditures in evaluating potential projects. If the Company deems a new project worthy of acquiring, it will capitalize these costs or expense them as project evaluation costs if they do not warrant additional development resources.

Interest income was $299,982 in the second quarter of 2008 compared to $361,565 in the same period in 2007, a decrease of $61,583 due to decreasing interest rates.

Excluding Toba/Montrose project expenditures, the Company incurred and capitalized $5,076,438 of costs associated with its Power Sites for on-going engineering and hydrological work, meeting regulatory and permitting requirements, as well as First Nations, community and other stakeholder consultations.

Six months ended June 30, 2008, compared to the six months ended June 30, 2007

The Company recorded a net loss of $6,446,599 for the six months ended June 30, 2008 ($0.15 loss per share) compared to a net loss of $3,360,592 ($0.10 loss per share) in the same period in 2007, an increase in net loss of $3,086,007. The Company incurred higher operating costs due to the following:

During the six months ended June 30, 2008, the Company recorded its 40% share of TMGP's realized loss on interest rate swap contracts of $28,556 and an unrealized loss on the fair value adjustment of interest rate swap contracts of $1,617,459 compared to nil in the same period in 2007. TMGP entered into two interest rate swap contracts related to its $100 million floating rate credit facility which will be drawn during the approximately three year construction phase and is to be repaid during the operating term of 35 years. TMGP records changes in the fair value of these interest rate swap contracts to earnings. TMGP entered into these two interest rate swap contracts to fix the effective interest rate that will be paid over the term of the floating rate credit facility.

Share-based compensation expense was $2,038,416 in the first six months of 2008 compared to $2,243,121 in the same period in 2007, a decrease of $204,705. The Company recorded a higher number of vested options in 2007 compared to 2008.

Salaries expense and management fees were $1,227,552 in the first six months of 2008 compared to $564,320 in the same period in 2007, an increase of $663,232. The Company had a higher number of officers, managers and administrative staff in 2008 in line with the growth of the Company and the number of projects under development.

The Company recorded $744,518 in guarantee fees during the six month period ended June 30, 2008 compared to nil in the comparative period. The guarantee fees are comprised of $294,518 in amortization of the fair value of the 650,000 warrants issued by the Company to GE in 2007 and $450,000 in cash payments related to the 3% annual cash fee paid to GE for the $30 million letter of credit GE has posted on behalf of the Company to TMGP lenders. The letter of credit provided by GE guarantees the $30 million equity contribution the Company is required to make in TMGP no later than November 1, 2010.

Consulting fees, office costs, rent, professional fees and travel and promotion all increased to support the Company's increased development activities related to its run-of-river power projects, the increased number of power projects under development and to support financing of the Company's working capital and project development costs.

During the first six months of 2008 the Company expensed $49,447 on project evaluation costs compared to $130,695 in the same period in 2007. The Company will incur expenditures in evaluating potential; projects. If the Company deems a new project worthy of acquiring, it will capitalize these costs and expense them as project evaluation costs if they do not warrant additional development resources.

Interest income was $725,841 in the first six months of 2008 compared to $511,035 in the same period in 2007, an increase of $214,806 due to higher average cash balances on hand.

Excluding Toba/Montrose project expenditures, the Company incurred and capitalized $7,895,853 of costs associated with its Power Sites for on-going engineering and hydrological work, meeting regulatory and permitting requirements, as well as 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.

Quarter Ended	Revenue	Loss	Loss Per Share	Loss Per Diluted Share
30-Jun-08	$ -	$3,686,335	$0.09	$0.09
31-Mar-08	$ -	$2,760,264	$0.07	$0.07
31-Dec-07	$ -	$6,202,015	$0.17	$0.17
30-Sep-07	$ -	$1,082,306	$0.03	$0.03
30-Jun-07	$ -	$2,704,232	$0.07	$0.07
31-Mar-07	$ -	$656,359	$0.02	$0.02
31-Dec-06	$ -	$117,595	$0.01	$0.01
30-Sep-06	$ -	$489,659	$0.03	$0.03

The Company's proportionate interest in the change in fair value of TMGP's interest rate swap contracts (a non-cash item) has caused significant fluctuations in earnings from quarter to quarter. On July 15, 2008, TMGP designated one of the two interest rate swap as an accounting cash flow hedge. This will reduce some of the past fluctuations in earnings.

Additionally, operating costs and stock based compensation costs have been increasing with the growth of the Company and with the issuance of a higher number of stock options at a higher fair value.

LIQUIDITY AND CAPITAL RESOURCES

The Company had consolidated working capital of $40,310,252 as at June 30, 2008 compared to consolidated working capital of $50,412,726 as at December 31, 2007, a decrease of $10,102,474. The decrease in working capital has been primarily the result of expenditures by the Company on power project development costs and the Company's proportionate interest in the reduction in net working capital of TMGP. TMGP's working capital will fluctuate depending on the timing of expenditures and funding from the long term debt facilities. At June 30, 2008, the Company had $36.7 million in cash (2007 - $43.1 million) and its proportionate interest in TMGP's cash was $12.3 million (2007 - $0.3 million).

During the three and six month periods ended June 30, 2008, the Company incurred cash development expenditures of $3,917,085 and $5,710,823 respectively on developing its Power Sites, incurred its proportionate share of additions to property, plant and equipment of $11,921,323 and $15,220,908 for the current construction of Toba/Montrose. The Company also incurred/(recovered) its proportionate share of additions to intangibles for the current construction of Toba/Montrose, being $24,591 and $(175,353), and used cash in operating activities of $1,639,410 and $2,336,730. The decrease of $175,353 in intangibles is due to certain expenses being reclassified and reallocated to property, plant and equipment rather than intangibles. The Company recorded its proportionate share of TMGP's long term debt, being

$39,033,906, with most of the funds sitting in a restricted account pending required payments for Toba/Montrose construction and related costs.

Excluding the TMGP project financing disclosed below, the Company's source of financing to date has been from the sale or issuance of common shares from treasury. The Company has sufficient working capital to fund its 2008 and some of its 2009 development expenditures and performance security deposits if the Company is successfully awarded EPAs. The amount of development expenditures and new EPA performance security deposits for 2009 will vary depending on the results of the BC Hydro 2008 RFP. The Company will need to raise additional financing to fund its remaining development expenditures if needed, its $30 million equity contribution in TMGP during 2010 and if required its proportionate share of $28 million of contingent equity and debt service reserve guarantees.

TMGP 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 to provide TMGP with the following:

- a $370 million, 38-year, senior secured credit facility with a fixed interest rate, a fixed draw down schedule to correspond with the three-year construction period and a repayment period over the 35-year term of the project's EPA with BC Hydro. The interest rate on this credit facility is 6.288% per annum during construction and 6.173% thereafter. As at June 30, 2008, the lenders had funded $97.6 million under this credit facility of which the Company's proportionate share is $39.0 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 is based on one month Canadian dollar bankers' acceptance rates during construction and 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 credit facility. As at June 30, 2008, TMGP had not yet drawn from this credit facility. 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.

TMGP paid an upfront fee to the co-lead arrangers and lenders of $4.7 million on closing of the credit facilities. A commitment fee, equal to 0.375% per annum multiplied by the amount not drawn on the $470 million in total available credit, is charged and paid to the lenders on a monthly basis during the construction period until fully drawn.

GE, through an affiliate, provided a $100 million equity bridge loan to TMGP. On commencement of commercial operations, which is expected to occur in 2010, GE will invest $100 million of equity in TMGP which will be used to repay the $100 million equity bridge loan. TMGP pays interest to the GE affiliate on the equity bridge loan with a cumulative maximum amount of $15 million payable during construction. As at June 30, 2008, TMGP had drawn the entire $100 million under the equity bridge loan.

CONTRACTUAL OBLIGATIONS

During 2006, the Company executed an EPA with BC Hydro to supply 745 GWh of electricity to be generated from the East Toba and Montrose project beginning in November 2010 for 35 years. This EPA was transferred to TMGP in 2007 and it is now a TMGP commitment.

The Company is required to contribute $30 million in equity on or before the earlier of the date TMGP's senior debt facilities have been fully drawn and November 1, 2010. The additional $30 million equity contribution in TMGP is primarily to fund an increase in capacity of the 230 KV transmission line to be built from the Toba Valley to Saltery Bay. The Company will have the right to use, subject to a priority use agreement, any additional unused capacity of the transmission line for its three additional Upper Toba Valley Power Sites. 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 in 2010. The Company pays the GE affiliate a 3% per annum fee on the amount of guarantee provided.

In connection with the purchase of Plutonic Hydro Inc. from Knight Piesold in 2003, the Company is required to pay a one time bonus within 30 days of the later of securing construction financing and the commencement of construction on certain of its power projects. The bonus is payable in shares or cash at the Company's option. During 2007, the Company paid a cash bonus of approximately $745,000 relating to the Toba/Montrose project.

During the second quarter of 2008, the Company entered into an agreement to extend its relationship 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 Company issued 100,000 common share purchase warrants to Knight Piesold, exercisable at a price of $7.93 for a period of two years and is required to pay a bonus if any of the identified projects become commercially viable.

The Company 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 Power Sites. The Company can elect to abandon its Power 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, including the contracts, permits, licences and IBAs transferred from the Company, are non-recourse to the Company.

During 2007, the Company transferred to TMGP the Toba/Montrose project and associated permits, licences, IBA with the Klahoose and Sliammon First Nations and its EPA with BC Hydro. These IBA's 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 similar financial commitments, project and training opportunities and royalty payments to the Klahoose and Sliammon First Nations.

The Company received an Environmental Assessment Certificate from the EAO for the Toba/Montrose project 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 to provide 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 June 30, 2008, the debt providers had advanced $97.6 million of the $470 million credit facilities.

TMGP executed a $497 million fixed-price EPC contract with Kiewit for the construction of Toba/Montrose. As at June 30, 2008, TMGP had incurred $160.4 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 $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. If required, the Company and GE would be required to fund its pro-rata share of project cost overruns, if any.

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.

The following table presents the carrying value of 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 used	$39.0	-	-	$0.7	$38.3
Long-term debt to be (drawn) repaid	($149.0)	($102.7)	($46.3)	$2.6	$146.4
Purchase obligations	$134.6	$93.4	$41.2	-	-

The long-term debt drawn and long-term debt available to be drawn and purchase obligations represent the Company's proportionate interest of 40% in TMGP.

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

On August 14, 2008, the Company and GE Energy Financial Services (GEFS) signed a memorandum of understanding to partner on a bid to develop approximately 1,000 MW of clean, run-of-river hydroelectric capacity in the Toba and Bute Inlets along the southwest coast of British Columbia. The approximate capital costs of these projects is estimated at $4 billion.

The Company and GEFS intend to jointly bid the Upper Toba Valley and Bute Inlet Projects into the 2008 BC Hydro Clean Power Call Request for Proposals in November. Based on current assumptions, if the two entities' joint bid is accepted, GEFS intends to make an equity contribution of $70 million for a

50% interest in the Upper Toba Valley Project and either by itself, or with other partners, an equity contribution of $650 million for a 60% interest in the Bute Inlet Project. The final economic terms will be determined based on project variables including final capital cost, awarded energy price and estimates of power output. GEFS would also have the right to arrange debt financing for the projects. Prior to GEFS' equity contribution, the Company would be responsible for all costs of permitting, public consultation and environmental assessment certification. The Company may elect to repurchase a further 10% interest in the Bute Project by making a $100 million equity contribution to capital costs.

Completion of the transactions is subject to such conditions as completion of satisfactory due diligence; finalization of satisfactory documentation; approval of investment committees and boards of directors; successful bids into BC Hydro's Clean Power Call Request for Proposals; senior debt financing for the projects; and regulatory approvals.

Upon successfully acquiring an energy purchase agreement for Upper Toba Valley Project and Bute Inlet Project with BC Hydro, GEFS would be granted one million and four million warrants respectively, with each warrant entitling GEFS to purchase one common share in the Company. The warrants would be exercisable at a price equal to the market price for the Company's common shares at the time they are issued, have a term of five years and would be subject to vesting provisions.

RISKS AND UNCERTAINTIES

The ability of the Company to become a viable provider of renewable and clean power is dependant upon a number of factors and includes, but is not limited to, the following: successful completion of hydrological studies to confirm that water flows are sufficient to generate enough electricity to provide a suitable return on investment, receipt of water licences, environmental and other permits to build and operate the projects, the successful negotiation of a long term contract with a purchaser of electricity, the ability to obtain sufficient equity and long term debt financing to construct the 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 BCTC grid, successful construction and operation of the generation facilities and associated 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.

The Company will need to raise additional equity and/or seek project equity financing to finance the equity portion for the construction of its projects. Existing shareholders of the Company will be subject to dilution.

CRITICAL ACCOUNTING ESTIMATES

The Company's accounting policies are described in detail in note 2 of the annual consolidated financial statements for the year ended December 31, 2007, with any changes in these policies being disclosed in note 2 to the interim consolidated financial statements for the three and six month periods ended June 30, 2008. The Company considers the following policies to be most critical in understanding its financial results:

<u>Use of estimates</u>

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

Carrying value of power development costs

The Company capitalizes direct costs associated with development of its power projects. Costs associated with successful projects are reclassified as capital assets and amortized over the useful life of the projects. The Company evaluates its power projects regularly for impairment and writes off costs that are not expected to be recoverable.

The recovery of power projects development costs is dependent upon the successful completion of the projects. The success of the power 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, to generate sufficient electrical power and to sell the electricity generated on a profitable basis.

Stock-based compensation

The Company uses the fair value method of accounting for options granted under its stock-based compensation plan. Stock options to employees 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. Stock options granted to consultants are valued at the time the options vest and at every reporting period for those not yet vested. 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.

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.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Effective January 1, 2008, the Company adopted three new Canadian Institute of Chartered Accountants (CICA) accounting standards: (i) Handbook Section 1535, *Capital Disclosures*; (ii) Handbook Section 3862, *Financial Instruments - Disclosures;* (iii) Handbook Section 3863, *Financial Instruments - Presentation*. The main requirements of these new standards and the resulting financial statement impact are described below.

Capital Disclosures (Section 1535):

Section 1535 specifies the disclosure of: (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and, (iv) if it has not complied, the consequences of such non-compliance. As a result of the adoption of this standard, additional disclosure on the Company's capital management strategy have been included in the Notes to the Consolidated Financial Statements.

Financial Instruments – Disclosures (Section 3862) and Financial Instruments – Presentation (Section 3863):

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

Section 3862 specifies disclosures that enable users to evaluate: (i) the significance of financial instruments for the entity's financial position and performance; (ii) the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

As a result of the adoption of this standard, additional disclosures on the risks of certain financial instruments have been included in the Notes to the Consolidated Financial Statements. Sensitivity analyses have been included to reflect the risk of changes in market risks.

Section 3863 establishes standards for the presentation and classification of financial instruments and non-financial derivatives. The adoption of this standard did not have any impact on the presentation or classification of the Company's financial instruments.

International Financial Reporting Standards (IFRS)

In 2006, the Canadian Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years 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 the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Goodwill and Intangible Assets

Effective January 1, 2009, the Company will adopt new CICA Handbook Section 3064, *Goodwill and Intangible Assets*. This Section replaces CICA Handbook Section 3062, *Goodwill and Intangible Assets* and CICA Handbook Section 3450, *Research and Development Costs*, and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Company is still evaluating the impact of this standard on its consolidated financial statements.

FINANCIAL AND OTHER INSTRUMENTS

During 2007, TMGP entered into two interest rate swap contracts that on a combined basis cover the period from November 2007 to June 2045 on the draw down of $100 million during the construction of Toba/Montrose project and the repayment of this debt during the operating term. Neither the Company nor TMGP have designated the interest rate swap contracts as hedges in accordance with CICA 3865, Hedges. As such, TMGP and the Company account for the interest rate swap contracts as derivative financial instruments and record the fair value of the two contracts on their balance sheets at each period end, with realized and unrealized gains or losses from the change in fair value recorded in the statement of operations. See note 10 in the consolidated financial statements of the Company for more information. On July 15, 2008, TMGP designated one of the two interest rate swap as an accounting cash flow hedge.

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.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the Company's internal control over financial reporting during the three and six month periods ended June 30, 2008 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

DISCLOSURE OF OUTSTANDING SHARE DATA

As at August 14, 2008, the Company had the following common shares, stock options and warrants outstanding:

Common shares	42,734,268
Stock options (vested and unvested)	4,176,250
Warrants	2,149,485
Fully Diluted shares outstanding	49,060,003