



Interim Consolidated Financial Statements  
(Expressed in Canadian dollars)

(unaudited)

For the three month periods ended March 31, 2009 and 2008

# PLUTONIC POWER CORPORATION

## Consolidated Balance Sheets

	March 31 2009	December 31 2008
	(unaudited)	(restated note 2(b))
<b>Assets</b>		
Current assets:		
Cash	\$ 23,580,585	\$ 28,460,631
Cash restricted for use in construction activities (note 6(d))	4,781,492	11,774,857
Amounts receivable	46,218	171,823
GST recoverable	453,135	1,208,735
Interest receivable	2,344	3,232
Prepaid expenses	342,174	446,803
	29,205,948	42,066,081
Performance security deposits	270,000	270,000
Prepaid guarantee fee	589,034	736,293
Builder's lien holdback deposit account	10,604,001	8,939,298
Investment (note 4(e))	3,614,647	3,614,647
Power project development costs (note 4)	27,695,690	24,630,574
Property, plant and equipment (note 5)	131,536,189	109,916,449
Intangible assets	5,022,311	4,840,782
	\$ 208,537,820	\$ 195,014,124
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 12,626,767	\$ 11,431,316
Interest and fees payable (note 6(a))	485,929	418,519
Current portion of interest rate swap contracts (note 7)	3,099,802	823,331
	16,212,498	12,673,166
Builder's lien holdback payable	11,633,497	9,678,636
Long-term debt (note 6)	90,642,384	77,962,568
Long-term portion of interest rate swap contracts (note 7)	17,635,717	9,447,544
Deferred gain on transfer of assets (note 3(a))	16,189,088	16,189,088
	152,313,184	125,951,002
Non controlling interest (note 3(b))	15,904,843	16,116,226
Shareholders' equity:		
Share capital (note 8)	74,139,029	74,116,429
Contributed surplus (note 9)	12,696,529	12,342,202
Accumulated other comprehensive loss	(5,315,609)	(3,638,756)
Deficit	(41,200,156)	(29,872,979)
	40,319,793	52,946,896
Commitments (notes 1 and 3)		
Subsequent events (note 4(c))		
	\$ 208,537,820	\$ 195,014,124

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"Donald A. McInnes" Director

"R. Stuart Angus" Director

# PLUTONIC POWER CORPORATION

Consolidated Statements of Operations and Comprehensive Loss

For the three month periods ended March 31, 2009 and 2008  
(unaudited)

	Three months ended March 31, 2009	Three months ended March 31, 2008 (restated note 2(a))
<b>Expenses:</b>		
Amortization	\$ 12,526	\$ 8,048
Consulting	196,844	66,809
Guarantee fees	372,259	372,259
Office	128,854	60,576
Power project development costs written-off	34,900	-
Professional fees	43,949	50,537
Project evaluation	63,494	14,303
Rent	120,737	58,104
Salaries	736,112	523,692
Share-based compensation	194,126	992,474
Transfer agent and listing fees	28,455	55,876
Travel and promotion	483,455	255,929
<b>Loss before the undernoted</b>	<b>(2,415,711)</b>	<b>(2,458,607)</b>
<b>Other income (expenses):</b>		
Interest income	68,029	425,859
Realized and unrealized loss on interest rate swap contracts (note 7)	(8,979,495)	(647,147)
	<b>(8,911,466)</b>	<b>(221,288)</b>
<b>Net loss for the period</b>	<b>(11,327,177)</b>	<b>(2,679,895)</b>
<b>Other comprehensive loss:</b>		
Change in fair value of effective portion of interest rate swap designated as a hedge (note 7)	(1,676,853)	-
<b>Comprehensive loss for the period</b>	<b>\$ (13,004,030)</b>	<b>\$ (2,679,895)</b>
<b>Basic and fully diluted loss per share</b>	<b>\$ (0.26)</b>	<b>\$ (0.06)</b>
<b>Weighted average number of shares outstanding</b>	<b>44,205,281</b>	<b>41,399,289</b>

See accompanying notes to consolidated financial statements.

# PLUTONIC POWER CORPORATION

## Consolidated Statements of Deficit

For the three month periods ended March 31, 2009 and 2008  
(unaudited)

	Three months ended March 31, 2009	Three months ended March 31, 2008 (restated note 2)
Deficit, beginning of period, as previously reported	\$ (27,825,612)	\$ (13,644,775)
Change in accounting standard (note 2(b))	(2,047,367)	(2,047,367)
Deficit, beginning of period, as restated	(29,872,979)	(15,692,142)
Net loss for the period	(11,327,177)	(2,679,895)
Deficit, end of period	\$ (41,200,156)	\$ (18,372,037)

## Consolidated Statements of Accumulated Other Comprehensive Loss

For the three month periods ended March 31, 2009 and 2008

	Three months ended March 31, 2009	Three months ended March 31, 2008
Accumulated other comprehensive loss, beginning of period	\$ (3,638,756)	\$ -
Change in fair value of effective portion of interest rate swap designated as a hedge (note 7)	(1,676,853)	-
Accumulated other comprehensive loss, end of period	\$ (5,315,609)	\$ -

See accompanying notes to consolidated financial statements.

# PLUTONIC POWER CORPORATION

## Consolidated Statements of Cash Flows

For the three month periods ended March 31, 2009 and 2008  
(unaudited)

	Three months ended March 31, 2009	Three months ended March 31, 2008
		(restated note 2(a))
Cash provided by (used in):		
Operating activities:		
Net loss for the period	\$ (11,327,177)	\$ (2,679,895)
Items not affecting cash:		
Amortization expense	12,526	8,048
Share-based compensation expense	194,126	992,474
Power project development costs written-off	34,900	-
Prepaid guarantee fee amortization	147,259	147,259
Unrealized loss on fair value adjustment of interest rate swaps	8,787,791	641,953
	(2,150,575)	(890,161)
Changes in non-cash working capital:		
Amounts receivable	125,605	216,613
GST recoverable	755,600	1,291,212
Interest receivable	888	(5,764)
Prepaid expenses	12,993	(67,746)
Accounts payable and accrued liabilities	1,195,451	4,322,696
Interest and fees payable	67,410	60,750
Due to related parties	-	(18,956)
Adjustment for non-cash working capital relating to power project development costs and property, plant and equipment	(2,535,809)	(5,605,961)
	(2,528,437)	(697,317)
Investing activities:		
Power project development costs	(3,391,234)	(1,793,738)
Intangible asset payments	(181,529)	(199,944)
Property, plant and equipment purchases	(18,637,438)	(3,299,585)
Performance security deposits	-	(42,000)
Builder's lien holdback deposit account	(1,664,703)	(631,758)
Builder's lien holdback payable	1,954,861	728,288
	(21,920,043)	(5,238,737)
Financing activities:		
Common shares issued for cash	15,000	1,064,271
Long-term debt	12,679,816	10,748,973
Cash restricted for use in construction activities	6,993,365	(8,778,886)
Financing provided by joint equity partner of TMGP	(119,747)	1,288,212
	19,568,434	4,322,570
Decrease in cash	(4,880,046)	(1,613,484)
Cash, beginning of period	28,460,631	43,400,385
Cash, end of period	\$ 23,580,585	\$ 41,786,901

Supplementary cash flow information (note 10)

See accompanying notes to consolidated financial statements.

# PLUTONIC POWER CORPORATION

## Consolidated Statements of Power Project Development Costs

For the three month periods ended March 31, 2009 and 2008  
(unaudited)

	Upper Toba Valley Project	Bute Inlet Project	Other Projects	Rainy River & Hope Projects	Total
Balance, December 31, 2007, as previously reported	\$ 1,966,227	\$ 3,261,825	\$ 1,413,042	\$ 3,614,647	\$ 10,255,741
Change in accounting standard (note 2(b))	(516,244)	(129,513)	(244,174)	-	(889,931)
Balance, December 31, 2007, as restated	1,449,983	3,132,312	1,168,868	3,614,647	9,365,810
Engineering and hydrology	1,788,079	8,588,450	1,115,631	2,021	11,494,181
Permitting	1,507,067	3,035,579	631,380	1,513	5,175,539
Community consultations	86,406	756,207	74,419	-	917,032
Financing and tender bid costs	55,322	91,054	11,094	-	157,470
Stock-based compensation	694,819	731,633	-	-	1,426,452
Sale of projects (note 4(e))	-	-	-	(3,618,181)	(3,618,181)
Project development costs written off	-	-	(287,729)	-	(287,729)
Total 2008 Costs	4,131,693	13,202,923	1,544,795	(3,614,647)	15,264,764
Balance, December 31, 2008, as restated	5,581,676	16,335,235	2,713,663	-	24,630,574
Engineering and hydrology	255,975	883,093	30,034	-	1,169,102
Permitting	248,551	1,271,315	(5,000)	-	1,514,866
Community consultations	17,079	231,408	60	-	248,547
Stock-based compensation	75,451	92,050	-	-	167,501
Project development costs written off	-	-	(34,900)	-	(34,900)
Total 2009 Costs	597,056	2,477,866	(9,806)	-	3,065,116
Balance, March 31, 2009	\$ 6,178,732	\$ 18,813,101	\$ 2,703,857	\$ -	\$ 27,695,690

See accompanying notes to consolidated financial statements.

# PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the three month periods ended March 31, 2009 and 2008  
(unaudited)

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## 1. Operations:

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

In 2007, the Company and its partner GE Energy Financial Services Holding Company (GE), formed the Toba Montrose General Partnership (TMGP), a general partnership formed under the laws of the Province of BC, to own, finance, build and operate the East Toba River and Montrose Creek run-of-river hydro-electric project (Toba Montrose), which is located at the headwaters of the Toba Inlet in BC. Toba Montrose is to include two separate generation facilities and 150 kilometres (km) of transmission line to interconnect the generation facilities to a new British Columbia Transmission Corporation (BCTC) substation being located at SALTERY Bay, BC. These two generation facilities have a combined design capacity of 196 megawatts (MW) and are expected to generate on average 727 gigawatt hours (GWh) of electricity annually net of transmission line losses with completion of construction and commencement of electricity sale to British Columbia Hydro and Power Authority (BC Hydro) scheduled for 2010 under a 35 year Electricity Purchase Agreement (EPA).

In 2007, TMGP secured financing of \$570 million for Toba Montrose. In addition, the Company is required to contribute \$30 million in equity to TMGP on or before the earlier of the date TMGP's senior debt facilities have been fully drawn and November 1, 2010; currently anticipated to be in the first half of 2010. The Company is also required to fund its pro-rata share of TMGP project cost overruns, if any.

The Company and GE Energy Financial Services (GEEFS) jointly bid the Upper Toba Valley and Bute Inlet run-of-river hydro-electric Projects (note 4(a)) into the BC Hydro Power and Authority 2008 Request for Proposals (BC Hydro 2008 RFP). If the Company and GEEFS are successfully awarded EPAs for these projects, the Company and GE are to set up project partnerships to hold the awarded EPAs and own, finance and build the projects. Based on current assumptions, these two projects are estimated to require capital costs and financing of approximately \$4 billion. GEEFS intends to fund, by itself or with other partners, project equity contributions of approximately \$720 million and has the right to fund or arrange the required debt, subject to satisfactory due diligence, finalization of satisfactory documentation and approval of investment committees and board of directors' approval. The Company would be responsible for all project permitting costs before GEEFS' equity contribution will be made to the project partnerships.

Due to the capital nature of the Company's projects and its commitment to contribute \$30 million to TMGP in 2010, the Company will be required to raise additional financing on its own in order to carry out its business plan. Management believes that it will be able to raise such funds as required through equity and/or debt financings.

# PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the three month periods ended March 31, 2009 and 2008  
(unaudited)

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## 2. Significant accounting policies:

### (a) Basis of presentation:

The Company prepares its consolidated interim financial statements in accordance with Canadian generally accepted accounting principles on a basis consistent with those used and described in the annual consolidated financial statements for the year ended December 31, 2008 except as discussed in note 2(b). The disclosures contained in these consolidated interim financial statements do not include all the requirements of Canadian generally accepted accounting principles for annual financial statements, and accordingly, these consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2008. Certain comparative figures have been restated to reflect an adjustment to the change in fair value of the interest rate swap contracts due to the retrospective adoption of EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*, adopted retroactively during the three month period ended December 31, 2008. The impact of the adjustment on the three-month period ended March 31, 2008 was a reduction to the unrealized loss on interest rate swap contracts and net loss by \$80,369 as compared to amounts previously reported. The adjustment has no impact on cash flow from operations.

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

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

As a result of the adoption of this standard, certain expenditures incurred that were previously deferred in power project development costs would not have been deferred as they did not meet the criteria for capitalization under the new standard. In accordance with the transition rules, the Company has written off the ineligible costs and has restated the comparative figures. The impact of adopting the standard retroactively has resulted in an increase in the deficit of \$2.1 million, an increase in the deferred gain of \$0.7 million, a decrease in power project development costs of \$0.9 million, and a decrease in intangible assets of \$0.5 million, each as at December 31, 2008 as compared to amounts previously reported. The adoption has not resulted in any change in net loss for the three months ended March 31, 2008 previously reported.

## 3. Investment in Toba Montrose General Partnership:

- (a) In 2007, the Company contributed Toba Montrose and related permits, licences, Impact Benefit Agreements (IBA's) with the Klahoose and Sliammon First Nations and its EPA with BC Hydro to TMGP. In return, the Company received and currently holds 51 Class A Units of TMGP, representing a 51% non-participating, voting interest in TMGP and 100 Class B Units of TMGP, which are non-voting and participate in 40% of the distributions of TMGP. After 35 years of operations, the Company's economic interest associated with the Class B Units in TMGP will increase to 51% and its partner's economic interest in TMGP will decrease from 60% to 49%.

# PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the three month periods ended March 31, 2009 and 2008  
(unaudited)

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

(a) (continued)

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

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

	March 31 2009	December 31 2008
Cash	\$ 1,476,169	\$ 687,059
Cash restricted for use in construction activities	4,781,492	11,774,857
GST recoverable	273,820	995,732
Other current assets	142,490	235,306
Performance security deposits	270,000	270,000
Builder's lien holdback deposit account	10,604,001	8,939,298
Property, plant and equipment	131,325,810	109,696,763
Intangible assets	5,022,311	4,840,782
	153,896,093	137,439,797
Accounts payable and accrued liabilities	9,837,695	7,649,620
Interest and fees payable	485,929	418,519
Builder's lien holdback payable	11,633,497	9,678,636
Long-term debt	90,642,384	77,962,568
Interest rate swap contracts	20,735,519	10,270,875
Non-controlling interest	15,904,843	16,116,226
	149,239,867	122,096,444
<b>Net assets</b>	<b>\$ 4,656,226</b>	<b>\$ 15,343,353</b>
	Three months ended March 31 2009	Three months ended March 31 2008
Realized and unrealized loss on interest rate swap contracts	\$ 8,979,495	\$ 647,147
Other expenses	45,530	23,430
<b>Share of TMGP net loss</b>	<b>\$ 9,025,025</b>	<b>\$ 670,577</b>
Cash flow from operating activities	\$ (247,111)	\$ (28,626)
Cash flow from investing activities	(18,525,590)	(3,374,125)
Cash flow from financing activities	19,561,811	3,258,300

As the equity contributions recorded to date by TMGP are not in the same proportion as the relative economic interests of Plutonic and GE as at March 31, 2009, a non-controlling interest of \$15.9 million has been recorded which represents the amount by which GE's contributions have exceeded their 60% economic interest in the net assets of TMGP (December 31, 2008 - \$16.1 million).

# PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the three month periods ended March 31, 2009 and 2008  
(unaudited)

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

- (c) The Company is required to contribute a further \$30 million in cash equity in TMGP on or before the earlier of the date TMGP's \$470 million senior credit facilities becomes fully drawn and November 1, 2010. The Company's cash equity contribution has been guaranteed to TMGP's debt providers by an affiliate of GE.
- (d) GE arranged for an affiliate to provide a \$100 million equity bridge loan facility to TMGP, which was fully drawn in 2008. In accordance with a subscription agreement between GE and TMGP, GE is contractually obligated to make a cash equity contribution at the earlier of the date of commercial operation of Toba Montrose and October 31, 2010. TMGP will use the proceeds from GE's equity contribution to repay the principal amount then due and payable under the Equity Bridge Loan.
- (e) A GE affiliate provided \$28 million of contingent equity and debt service reserve guarantees to TMGP's debt providers. TMGP pays to the GE affiliate a 3% per annum fee on the amount of guarantees provided. The Company and GE would be required to fund their pro-rata share of project cost overruns, if any. For the three months ended March 31, 2009, TMGP paid or accrued fees of \$210,000 in relation to this guarantee, of which the Company's proportionate interest was \$84,000 (three months ended March 31, 2008 - \$210,000 and \$84,000 respectively). These fees are considered a project financing cost and are capitalized as part of property, plant and equipment.
- (f) A GE affiliate provided an \$11.76 million letter of credit to BC Hydro as part of the EPA performance bonding requirements. TMGP pays the GE affiliate a 3% per annum fee on the face amount of the letter of credit. For the three months ended March 31, 2009, TMGP paid or accrued fees of \$88,200 in relation to the fee associated with this letter of credit, of which the Company's proportionate interest was \$35,280 (three months ended March 31, 2008 - \$88,200 and \$35,280 respectively).
- (g) TMGP has the following commitments:
  - (i) TMGP has a 35 year EPA with BC Hydro to supply all the electricity to be generated from Toba Montrose beginning in November 2010 at rates which escalate yearly. The project is expected to generate an average of 727 GWh annually, net of transmission line losses. If TMGP is late or unable to commence sale of electricity, it will be subject to penalties under the terms of the EPA.
  - (ii) In 2007, TMGP received land tenures and water licenses for the project sites, roads and transmission line from the Integrated Land Management Bureau and the British Columbia Ministry of the Environment and Provincial Environmental Certification from the British Columbia Environmental Assessment Office (EAO). The EAO certificate contains a number of commitments that TMGP must adhere to during the construction and operation of the project, including mitigation measures to protect wildlife and areas of cultural significance to the Klahoose, Sliammon and Sechelt First Nations.
  - (iii) Under the provisions of its IBA's with the Klahoose, Sliammon and Sechelt First Nations, TMGP has a number of financial commitments during the construction and operation of the project, including periods beyond the 35 year term of the EPA, if TMGP continues operations. These commitments include signing bonuses, construction access fees, continued access fees, project and training opportunities, and revenue sharing.

# PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the three month periods ended March 31, 2009 and 2008  
(unaudited)

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

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

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

### 4. Power project development costs:

The Company has incurred and capitalized direct costs on 40 run-of-river hydro-electric power development projects, excluding Toba Montrose, located primarily in the southwestern region of BC. 33 of the projects are located within the Company's Green Power Corridor™, an area in southwest coastal BC, which includes drainages flowing into the Toba, Bute and Knight Inlets.

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 share until May 13, 2010 and a bonus structure if any of the identified projects become commercially viable.

(a) Joint Bid for BC Hydro 2008 RFP:

In 2008, the Company and GEEFS signed a memorandum of understanding to partner on a bid to develop approximately 1,200 MW of clean, run-of-river hydroelectric capacity in the Toba and Bute Inlets along the southwest coast of BC. The approximate capital cost of these projects is estimated at \$4 billion.

The Company and GEEFS jointly bid the Upper Toba Valley (note 4(c)) and Bute Inlet Projects (note 4(d)) into the BC Hydro 2008 RFP in November 2008. Based on current assumptions, if the two entities' joint bid is accepted, GEEFS 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. GEEFS would also have the right to arrange debt financing for the projects. Prior to GEEFS' 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 Inlet 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 the BC Hydro 2008 RFP, senior debt financing for the projects, and regulatory approvals.

# PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the three month periods ended March 31, 2009 and 2008  
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## 4. Power project development costs (continued):

### (a) Joint Bid for BC Hydro 2008 RFP (continued):

Upon successfully acquiring an EPA for the Upper Toba Valley Project and the Bute Inlet Project with BC Hydro, the Company would grant GEEFS one million and four million warrants respectively, with each warrant entitling GEEFS 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.

Subject to the award of a successful EPA for the Upper Toba Valley Project and the completion of the related project equity funding by GEEFS, the Company will also receive a payment of \$20 million for reimbursement of previously incurred capital costs.

BC Hydro expects to award EPAs to successful bidders in June 2009.

The Company's principal power projects are as follows:

### (b) Toba Montrose:

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

In February 2009, TMGP and the Government of Canada formally signed an agreement under the ecoEnergy for Renewable Power program. This program provides incentive funding to increase Canada's supply of clean electricity from renewable sources, including low-impact hydro projects such as Toba Montrose. Once complete, Toba Montrose is expected to generate 727 GWh of electricity annually net of transmission line losses, which will entitle TMGP to receive up to \$72.8 million in funding under the ecoEnergy program during its first ten years of operations based on one cent per kilowatt-hour of electricity generated by Toba Montrose and sold to BC Hydro.

### (c) Upper Toba Valley Project:

The Upper Toba Valley Project consists of three run-of-river hydroelectric sites (Power Sites), with an estimated combined potential generation capacity of 166 MW and potential annual electricity generation of 452 GWh. These three sites are located on tributaries of the Toba River, close to Toba Montrose, and were added to the Company's portfolio during 2006.

In 2006, the Company applied for and had applications for water licenses and Crown Land tenure accepted by the Water Stewardship Division, Ministry of the Environment (MOE) and the Integrated Land Management Bureau, Ministry of Agriculture and Lands (ILMB) for these three Power Sites. The Company then submitted the Upper Toba Valley project to the 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.

In early April 2009, the Company was granted a Provincial Environmental Assessment Certificate for the Upper Toba Valley Project.

# PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the three month periods ended March 31, 2009 and 2008  
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## 4. Power project development costs (continued):

### (c) Upper Toba Valley Project (continued):

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 the Company's wholly-owned three additional sites that make up the Upper Toba Valley Project.

The Company continues to perform hydrological, engineering, environmental and permitting work on this power project.

### (d) Bute Inlet Project:

The Bute Inlet Project consists of 17 Power Sites, with an estimated combined potential generation capacity of 1,027 MW and potential annual electricity generation of 2,906 GWh. Eight of these 17 sites were added during 2007 and one was added during 2008.

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

In 2008, the Company submitted its Bute Inlet Project into the Environmental Assessment Process. The EAO has issued a Section 10 order that binds the project to an environmental assessment under the Environmental Assessment Act.

The Bute Inlet Project proposal submitted to the EAO, the Canadian Environmental Assessment Agency and the Major Projects Management Office is for the construction of 17 run-of-river generating facilities, organized into three interconnected groups. Seven of the facilities 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 Inlet Project configuration is to interconnect the three groups of facilities with a 230 kilovolt (KV) transmission line to a substation near the mouth of the Southgate River. From the substation the electricity is to be carried by a 500 KV transmission line to a point of interconnection to the BCTC transmission line at the BCTC Malaspina substation near Earl's Cove. Ultimate Bute Inlet Project design and configuration, including access roads and related infrastructure, will be determined in conjunction with First Nation, stakeholder and local community consultation, interconnection studies and upon completion of consultation with the appropriate Federal, Provincial and local government authorities on environmental, social and electrical impacts.

The Company continues to perform hydrological, engineering, environmental and permitting work and is consulting with the communities, First Nations and other stakeholders on this power project.

### (e) Rainy River and Hope Projects:

In 2008, the Company sold the Rainy River and Hope Projects to AltaGas Income Trust (AltaGas). The transaction involved the sale of all hydrological and environmental data and engineering and permitting work completed over the last four years as well as the water license and attendant land tenure applications for the projects. The Company received 180,433 non-transferable, non-participating special warrants of AltaGas. The special warrants convert to 180,433 trust units of AltaGas on January 1, 2010 for no additional consideration. The Company has estimated the fair value of these special warrants at the time of the transaction to be \$3.6 million.

# PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

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## 4. Power project development costs (continued):

### (e) Rainy River and Hope Projects (continued):

The special warrants in AltaGas are considered an investment in restricted equity instruments that do not have a quoted market price in an active market and are classified as available for sale. After the initial fair value recognition of these special warrants, they are held at cost, unless an other than temporary decline in value has occurred, in which case they would be written down to fair value, with the write-down recorded in loss for the period of the write-down.

### (f) Other Projects:

The Company has 20 other Power Sites with a combined potential generation capacity of 664 MW and potential annual electricity generation of 2,112 GWh. These Power Sites are located primarily in the southwestern region of BC. The Company continues to collect hydrological data, conduct engineering work and perform other required studies on these Power Sites.

## 5. Property, plant and equipment:

March 31 2009	Cost	Accumulated amortization	Net book value
East Toba and Montrose assets under construction	\$ 131,325,810	\$ -	\$ 131,325,810
Computer equipment	138,904	45,569	93,335
Office equipment	111,415	22,232	89,183
Vehicle	10,000	4,496	5,504
Leasehold Improvements	23,710	1,353	22,357
	\$ 131,609,839	\$ 73,650	\$ 131,536,189

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

# PLUTONIC POWER CORPORATION

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For the three month periods ended March 31, 2009 and 2008  
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## 5. Property, plant and equipment (continued):

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

	March 31 2009	December 31 2008
Engineering, procurement and construction costs	\$ 116,334,973	\$ 96,786,360
Development costs	1,400,000	1,400,000
BCTC interconnection costs	1,110,640	1,110,640
Land lease payments	113,688	106,983
Project construction management costs	3,833,596	3,236,409
Insurance costs covering the construction period	1,022,079	1,020,395
Capitalized net financing costs	7,510,834	6,035,976
	<u>\$ 131,325,810</u>	<u>\$ 109,696,763</u>

In 2007, TMGP executed a \$497 million fixed-price Engineering, Procurement and Construction (EPC) contract with Kiewit for the construction of Toba Montrose, which includes two powerhouses with weirs, intakes, penstocks and generation equipment, a 150 km transmission line, and related development costs including access roads and bridges. As at March 31, 2009, TMGP had incurred or accrued for \$290.8 million under the terms of the EPC contract, of which the Company's proportionate share was \$116.3 million (December 31, 2008 - \$241.1 million and \$96.4 million respectively).

In 2007, TMGP executed a facilities agreement and a transmission interconnection agreement with BCTC to interconnect the Toba Montrose generation facilities to BCTC's transmission line at Sallery Bay. TMGP is required to fund an estimated total of \$3,456,000 of the interconnection costs as follows:

- \$229,600 on signing (paid in 2007)
- \$1,200,000 by December 31, 2007 (paid in 2007)
- \$1,347,000 by December 31, 2008 (paid in 2008) and
- \$679,400 thereafter upon final reconciliation of costs

As at March 31, 2009, TMGP incurred and capitalized \$20.6 million in financing costs directly attributable to the construction of Toba Montrose, which was offset by \$1.8 million of interest earned on investments for net financing costs of \$18.8 million (December 31, 2008 - \$15.1 million). The Company's proportionate interest in the capitalized net financing costs was \$7.5 million. The finance costs capitalized by TMGP include an upfront fee of \$4.7 million (being 1% of the \$470 million long-term credit facilities) paid to the co-lead arrangers and lenders on the closing date of the long-term credit facility in 2007 (note 6(a)), \$1.7 million of fees paid to GE affiliates for guarantees, letters of credit and financing provided to TMGP, \$11.1 million of interest and stand-by fees paid to the lenders in respect of the long-term debt (note 6(a)), and \$3.1 million of legal fees and other costs directly associated with the financing.

# PLUTONIC POWER CORPORATION

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## 6. Long-term debt:

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

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

- (i) a \$370 million, 38-year senior secured credit facility with a fixed interest rate, a fixed draw down schedule to correspond with the three-year construction period and a repayment period over the 35-year term of the project's EPA with BC Hydro (the Fixed Rate Facility). The interest rate on this credit facility is 6.288% per annum during the construction period and 6.173% thereafter. The construction period is defined in the credit facility agreement and includes the period through the date of commercial production, and for greater certainty, a period no later than March 1, 2011. As at March 31, 2009, the lenders had funded \$226.6 million under this credit facility, of which the Company's proportionate interest was \$90.6 million (December 31, 2008 - \$194.9 million and \$78.0 million respectively).
- (ii) a \$100 million, 38-year senior secured credit facility with a floating interest rate, flexible draw downs during the three-year construction period and a repayment period over the 35-year term of the project's EPA with BC Hydro (the Floating Rate Facility). GE Canada Asset Financing Holding Company (GE Lender) provides \$50 million (50%) of the Floating Rate Facility. The floating interest rate on this credit facility is based on one month Canadian dollar bankers' acceptance rates during the construction period, and the three month Canadian dollar bankers' acceptance rates thereafter, plus an applicable credit spread in each instance. The credit spread is 1.35% per annum during the construction period and for the first four years thereafter, and 1.60% for the remaining term of the credit facility. As at March 31, 2009, TMGP had not yet drawn from this credit facility.

TMGP entered into two interest rate swap contracts to effectively fix the interest rates on the Floating Rate Facility (note 7).

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

The Company's proportionate interest in commitment fees and interest payable under the terms of the credit facilities at March 31, 2009 was \$485,929, of which \$6,250 was owed to GE Lender (December 31, 2008 - \$418,519 and \$6,250 respectively).

# PLUTONIC POWER CORPORATION

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## 6. Long-term debt (continued):

### (b) Principal repayments:

Principal repayments for both credit facilities are to be made by TMGP annually until 2044 on the last business day of each fiscal year, commencing on December 31, 2011, based on a fixed repayment schedule, with a final principal payment to be made on June 30, 2045. Interest is paid quarterly throughout the term of the credit facilities. Annual payments of interest and principal for the Fixed Rate Facility average approximately \$26.1 million per annum over the term of repayment, of which the Company's proportionate interest is \$10.4 million. Annual payments of interest and principal for the Floating Rate Facility average approximately \$7.6 million per annum over the term of repayment, of which the Company's proportionate interest is \$3.0 million. The Company's proportionate interest in the minimum principal payments over the next five years, assuming a draw down of the entire \$470 million credit facilities, are as follows:

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2009	\$	-
2010		-
2011		1,617,456
2012		1,720,333
2013		1,829,753
2014 (first quarter)		-

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

### (c) Security pledged:

The two credit facilities are secured by a first charge on all of the property and assets of TMGP, which had a carrying value of \$411.7 million at March 31, 2009 (December 31, 2008 - \$370.6 million). The Company's proportionate share of TMGP's long term debt is non-recourse to the Company.

### (d) Construction escrow account:

In accordance with the terms of the credit facilities, debt is drawn down by TMGP on a specific monthly schedule that commenced in November 2007. The funds are drawn into a restricted escrow construction account. On a monthly basis TMGP applies for funds to be released from the escrow account to pay for ongoing construction. At March 31, 2009, a total of \$12.0 million (December 31, 2008 - \$29.4 million) was being held by TMGP in escrow of which the Company's proportionate interest was \$4.8 million (December 31, 2008 - \$11.8 million). Funds held in escrow are invested in one month bankers' acceptances with yields at March 31, 2009 ranging from 1.450% per annum to 1.498% per annum.

# PLUTONIC POWER CORPORATION

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## 7. Interest rate swap contracts:

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

The first interest rate swap contract provides for monthly settlements from November 8, 2007 to November 1, 2010 (Short Dated Interest Rate Swap). Pursuant to the interest rate swap agreement, TMGP receives interest on a notional amount at the one month Canadian dollar Bankers Acceptance Rate from the counterparty and pays interest on the notional amount at an interest rate of 4.726% per annum. The notional amount is increased monthly in amounts based on a fixed schedule that was based on estimated drawings to be made on the \$100 million floating rate credit facility (note 6(a)(ii)). The notional amount of the swap at March 31, 2009 was \$58.3 million (December 31, 2008 - \$49.0 million) and it increases on a monthly basis to a maximum notional amount of \$100 million beginning on May 1, 2010. TMGP and the counterparty net settle the amount owing on a monthly basis.

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

Prior to July 15, 2008, neither the Company nor TMGP had designated the two interest rate swap contracts as hedges in accordance with CICA 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 hedging contracts on its balance sheet at each period end, with realized and unrealized gains or losses from the change in fair value recorded in the statement of operations.

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

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Notes to the Consolidated Financial Statements

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## 7. Interest rate swap contracts (continued):

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

Interest Rate Swap Contract Liabilities	March 31 2009	December 31 2008
Short Dated Interest Rate Swap	\$ 5,464,522	\$ 2,182,527
Long Dated Interest Rate Swap	15,270,997	8,088,348
	\$ 20,735,519	\$ 10,270,875
Less: Current Portion of Interest Rate Swap Contracts	(3,099,802)	(823,331)
Long-term Portion of Interest Rate Swap Contracts	\$ 17,635,717	\$ 9,447,544

The fair values of the interest rate swap contracts were determined based on valuations obtained from the counter-party and by consultants to TMGP. The counterparty is a major financial institution, HSBC Bank USA.

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

Period	Statement of Operations		Other comprehensive loss	
	Realized loss	Unrealized loss	Total loss	Unrealized loss
Short Dated Interest Rate Swap:				
Three months ended March 31, 2008	(5,194)	(596,561)	(601,755)	-
Three months ended March 31, 2009	(191,704)	(3,281,995)	(3,473,699)	-
Long Dated Interest Rate Swap:				
Three months ended March 31, 2008	-	(45,392)	(45,392)	-
Three months ended March 31, 2009	-	(5,505,796)	(5,505,796)	(1,676,853)
Total				
Three months ended March 31, 2008	\$ (5,194)	\$ (641,953)	\$ (647,147)	\$ -
Three months ended March 31, 2009	\$ (191,704)	\$ (8,787,791)	\$ (8,979,495)	\$ (1,676,853)

# PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the three month periods ended March 31, 2009 and 2008  
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## 7. Interest rate swap contracts (continued):

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

- (i) For the TMGP short dated interest rate swap contract, which expires in November 2010, the Company is now solely liable for any gains or losses in the event of an early termination of the contract. This also results in the Company being allocated 100% of the unrealized gains and losses from the change in fair value of the TMGP short dated interest rate swap contract until its expiry in November 2010. The Company accordingly recorded an adjustment in March 2009 to reflect the resulting increase in its share of the interest rate swap contract liability and unrealized losses in the statement of operations of \$3.3 million on the short dated interest rate swap contract.
- (ii) For the TMGP long dated interest rate swap contract, which expires in June 2045, the Company will be liable for the first \$13.0 million of any gains or losses in the event of an early termination of the contract. Any gains or losses resulting from the early termination of the contract in excess of \$13.0 million would continue to be allocated 60% to GEEFS and 40% to the Company. This also results in the Company being allocated 100% of the unrealized gains and losses from the change in fair value of the long dated interest rate swap contract from the inception of the long dated interest rate swap up to a maximum of \$13.0 million and 40% of the unrealized gains and losses in excess of \$13.0 million. As at March 31, 2009, the TMGP long dated interest rate swap contract had a negative value of \$18,677,492. The Company accordingly recorded an adjustment in March 2009 to reflect the resulting increase in its share in the interest rate swap contract liability of \$7.8 million (60% of \$13 million) as follows; unrealized losses in the statement of operations of \$5.7 million; and other comprehensive loss of \$2.1 million on the long dated interest rate swap contract.
- (iii) As disclosed in the note 11(c) of the annual audited consolidated financial statements, interest rate increases and decreases cause the fair value of the interest rate swaps to increase and decrease in fair value respectively.
- (iv) TMGP Realized gains or losses realized through normal monthly or quarterly settlements continue to be allocated 60% to GEEFS and 40% to the Company.

# PLUTONIC POWER CORPORATION

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## 8. Share capital:

- (a) Authorized  
     100,000,000 common shares without par value  
     10,000,000 preferred shares without par value, issuable in series

- (b) Common shares - Issued and outstanding:

	Number of shares	Amount
Balance, December 31, 2008	44,191,503	74,116,429
Issued for cash from exercise of options	20,000	15,000
Transfer from contributed surplus on exercise of vested options	-	7,600
<b>Balance, March 31, 2009</b>	<b>44,211,503</b>	<b>\$ 74,139,029</b>

- (c) Share purchase warrants:

The continuity of share purchase warrants during the three month period ended March 31, 2009 is as follows:

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

- (d) Stock options:

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

	Options granted	Weighted average exercise price
Balance, December 31, 2008	4,298,500	4.65
Options granted	830,000	2.10
Options exercised	(20,000)	0.75
Options cancelled	(50,000)	4.25
<b>Balance, March 31, 2009</b>	<b>5,058,500</b>	<b>\$ 4.25</b>

# PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

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## 8. Share capital (continued):

### (d) Stock options (continued):

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

Grant date	Expiry date	Number outstanding	Weighted average exercise price	Weighted remaining contractual life (in years)	<u>Vested and exercisable</u>	
					Number	Weighted average exercise price
May 17, 2004	May 17, 2009	62,500	\$0.32	0.13	62,500	\$0.32
Nov 23, 2004	Nov 24, 2009	104,000	\$0.75	0.65	104,000	\$0.75
Mar 27, 2006	Mar 27, 2011	100,000	\$0.80	1.99	100,000	\$0.80
June 7, 2006	June 7, 2011	317,000	\$1.65	2.19	317,000	\$1.65
July 10, 2006	July 10, 2011	190,000	\$1.63	2.28	190,000	\$1.63
July 25, 2006	July 25, 2011	150,000	\$2.12	2.32	150,000	\$2.12
Nov 14, 2006	Nov 14, 2011	8,000	\$2.10	2.62	8,000	\$2.10
Dec 18, 2006	Dec 18, 2011	74,000	\$2.80	2.72	74,000	\$2.80
Mar 27, 2007	Mar 26, 2012	350,000	\$4.20	2.99	350,000	\$4.20
Mar 28, 2007	Mar 27, 2012	1,253,000	\$4.25	2.99	1,253,000	\$4.25
Apr 20, 2007	Apr 19, 2012	230,000	\$5.28	3.05	230,000	\$5.28
May 14, 2007	May 13, 2012	100,000	\$7.28	3.12	100,000	\$7.28
May 22, 2007	May 21, 2012	150,000	\$7.30	3.14	50,000	\$7.30
Jul 11, 2007	Jul 10, 2012	27,500	\$7.80	3.28	9,167	\$7.80
Sept 13, 2007	Sept 12, 2012	47,500	\$6.90	3.45	15,833	\$6.90
Apr 15, 2008	Apr 14, 2013	885,000	\$7.70	4.04	-	\$7.70
Sept 8, 2008	Sept 7, 2013	150,000	\$6.40	4.44	-	\$6.40
Nov 25, 2008	Nov 24, 2013	30,000	\$2.16	4.65	-	\$2.16
Mar 24, 2009	Mar 24, 2014	830,000	\$2.10	4.98	-	\$2.10
		5,058,500	\$4.25	3.37	3,013,500	\$3.60

On March 24, 2009, the Company granted 830,000 stock options with an exercise price of \$2.10 per common share to employees of the Company and TMGP. The weighted average grant-date fair value of stock options granted during the period ended March 31, 2009 was \$1.04 per stock option. No stock options were granted during the three months ended March 31, 2008. The Company determines the fair value of the stock options granted using the Black-Scholes option pricing model, using the following weighted average assumptions:

	2009
Risk-free interest rate	1.5% to 1.8%
Expected life	4.0 to 5.0 years
Expected volatility	63% to 68%
Expected dividend yield	Nil

As at March 31, 2009, there were 562,150 options available for grant under the Company's stock option plan.

# PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

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## 9. Contributed surplus:

Balance, December 31, 2008	12,342,202
Share-based compensation expense	194,126
Fair value of options capitalized to power project costs	167,501
Fair value of options capitalized to property, plant and equipment	300
Transfer to share capital on exercise of vested options	(7,600)
<b>Balance, March 31, 2009</b>	<b>\$ 12,696,529</b>

## 10. Supplemental cash flow information:

	Three months ended March 31 2009	Three months ended March 31 2008
Supplementary information:		
Interest and fees paid	\$ 1,325,865	\$ 291,263
Interest received	120,277	573,121
Non-cash transactions:		
Fair value of options and warrants capitalized to power project development costs	167,501	272,360
Fair value of options for TMGP employees capitalized to property, plant and equipment	300	58,786
Sale of Rainy River and Hope projects for special warrants in AltaGas	-	3,614,647
	March 31 2009	December 31 2008
Cash is comprised of:		
Cash of the Company	\$ 22,104,416	\$ 27,773,572
Company's proportionate interest in cash of TMGP	1,476,169	687,059
	<b>\$ 23,580,585</b>	<b>\$ 28,460,631</b>