

Plutonic

POWER CORPORATION



Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2008 and 2007

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Plutonic Power Corporation are the responsibility of management. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and where appropriate include management’s best estimates and judgments.

Management maintains a system of internal control designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and that financial information is timely and reliable.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Board of Directors appoints the Audit Committee, and all of its members are independent directors. The Audit Committee meets periodically with management and the shareholders’ auditors to review financial statements and reports prepared by management, internal controls, audit results, accounting principles and related matters. The Board of Directors approves the consolidated financial statements on recommendation from the Audit Committee.

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

“Donald A. McInnes”

“Peter G. Wong”

Donald A. McInnes
Chief Executive Officer

Peter G. Wong
Chief Financial Officer

March 13, 2009



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

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

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Plutonic Power Corporation as at December 31, 2008 and 2007 and the consolidated statements of operations and comprehensive loss, deficit, accumulated other comprehensive income (loss), cash flows and power project development costs for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP' in a cursive, slightly slanted font. A horizontal line is drawn underneath the signature.

Chartered Accountants

Vancouver, Canada

February 25, 2009

PLUTONIC POWER CORPORATION

Consolidated Balance Sheets

December 31, 2008 and 2007

	2008	2007
Assets		
Current assets:		
Cash	\$ 28,460,631	\$ 43,400,385
Cash restricted for use in construction activities (note 9(d))	11,774,857	8,073,186
Amounts receivable	171,823	280,363
GST recoverable	1,208,735	1,705,167
Interest receivable	3,232	3,106
Prepaid expenses	446,803	373,416
	<u>42,066,081</u>	<u>53,835,623</u>
Performance security deposits	270,000	160,000
Prepaid guarantee fee (note 4)	736,293	1,325,328
Builder's lien holdback deposit account (note 5)	8,939,298	2,994,755
Investment (note 6(f))	3,614,647	-
Power project development costs (note 6)	25,520,505	10,255,741
Property, plant and equipment (note 7)	109,916,449	37,055,397
Intangible assets (note 8)	5,303,756	5,023,102
	<u>\$ 196,367,029</u>	<u>\$ 110,649,946</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 11,431,316	\$ 3,328,533
Interest and fees payable (note 9(a))	418,519	77,480
Due to related parties	-	16,884
	<u>11,849,835</u>	<u>3,422,897</u>
Builder's lien holdback payable (note 5)	9,678,636	3,016,743
Long-term debt (note 9)	77,962,568	8,061,910
Interest rate swap contracts (note 10)	10,270,875	2,881,176
Deferred gain on transfer of assets (note 3(a))	15,494,626	15,494,626
	<u>125,256,540</u>	<u>32,877,352</u>
Non controlling interest (note 3(b))	16,116,226	15,906,988
Shareholders' equity:		
Share capital (note 12)	74,116,429	64,014,533
Contributed surplus (note 13)	12,342,202	11,495,848
Accumulated other comprehensive loss	(3,638,756)	-
Deficit (note 2(b)(iii))	(27,825,612)	(13,644,775)
	<u>54,994,263</u>	<u>61,865,606</u>
Commitments (note 3 and 16)		
Subsequent events (note 17)		
	<u>\$ 196,367,029</u>	<u>\$ 110,649,946</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"Donald A. McInnes" Director

"R. Stuart Angus" Director

PLUTONIC POWER CORPORATION

Consolidated Statements of Operations and Comprehensive Loss

For the years ended December 31, 2008 and 2007

	2008	2007
Expenses:		
Amortization	\$ 44,391	\$ 16,910
Consulting	322,529	153,932
Electricity contract cancellation fee	-	100,662
Guarantee fees (note 4)	1,489,035	228,172
Management fees	-	54,630
Office	343,499	271,341
Power project development costs written-off	287,729	458,287
Professional fees	382,747	172,399
Project evaluation	112,624	117,150
Rent	334,538	214,977
Salaries	3,593,879	2,409,186
Share-based compensation	3,035,126	3,785,883
Transfer agent and listing fees	129,034	224,956
Travel and promotion	1,389,094	845,640
Loss before the undernoted	(11,464,225)	(9,054,125)
Other income (expenses):		
Interest income	1,204,045	1,187,935
Realized and unrealized loss on interest rate swap contracts (note 10)	(4,063,727)	(2,881,176)
Gain on sale of marketable securities	-	102,454
	(2,859,682)	(1,590,787)
Net loss for the year	(14,323,907)	(10,644,912)
Other comprehensive income (loss):		
Unrealized gain on marketable securities	-	81,454
Reclassification of realized gain on sale of marketable securities	-	(102,454)
Change in fair value of effective portion of interest rate swap designated as a hedge (note 10)	(3,638,756)	-
Comprehensive loss for the year	\$ (17,962,663)	\$ (10,665,912)
Basic and fully diluted loss per share	\$ (0.34)	\$ (0.29)
Weighted average number of shares outstanding	42,715,048	37,193,968

See accompanying notes to consolidated financial statements.

PLUTONIC POWER CORPORATION

Consolidated Statements of Deficit

For the years ended December 31, 2008 and 2007

	2008	2007
Deficit, beginning of year, as originally reported	\$ (13,644,775)	\$ (2,999,863)
Adjustment to opening deficit - change in accounting policy (note 2(b)(iii))	143,070	-
Deficit, beginning of year, restated	(13,501,705)	(2,999,863)
Net loss for the year	(14,323,907)	(10,644,912)
Deficit, end of year	\$ (27,825,612)	\$ (13,644,775)

Consolidated Statements of Accumulated Other Comprehensive Income (Loss)

For the years ended December 31, 2008 and 2007

	2008	2007
Accumulated other comprehensive income, beginning of year	\$ -	\$ 21,000
Unrealized gain on marketable securities	-	81,454
Reclassification of realized gain on sale of marketable securities	-	(102,454)
Change in fair value of effective portion of interest rate swap designated as a hedge (note 10)	(3,638,756)	-
Accumulated other comprehensive loss, end of year	\$ (3,638,756)	\$ -

See accompanying notes to consolidated financial statements.

PLUTONIC POWER CORPORATION

Consolidated Statements of Cash Flows

For the years ended December 31, 2008 and 2007

	2008	2007
Cash provided by (used in):		
Operating activities:		
Net loss for the year	\$ (14,323,907)	\$ (10,644,912)
Items not affecting cash:		
Amortization expense	44,391	16,910
Loss on disposal of property, plant and equipment	-	1,223
Share-based compensation expense	3,035,126	3,785,883
Share-based compensation expense for consultants	-	96,540
Gain on sale of marketable securities	-	(102,454)
Power project development costs written-off	287,729	458,287
Prepaid guarantee fee amortization	589,035	98,172
Unrealized loss on fair value adjustment of interest rate swaps	3,894,013	2,881,176
	(6,473,613)	(3,409,175)
Changes in non-cash working capital:		
Amounts receivable	108,540	(270,508)
GST recoverable	496,432	(1,501,264)
Interest receivable	(126)	143,588
Prepaid expenses	(164,994)	5,940
Accounts payable and accrued liabilities	8,102,783	809,329
Interest and fees payable	341,039	(16,218)
Due to related parties	(16,884)	(68,300)
Adjustment for non-cash working capital relating to power project development costs and property, plant and equipment	(8,234,940)	87,042
	(5,841,763)	(4,219,566)
Investing activities:		
Power project development costs	(16,095,640)	(34,603,903)
Power project development costs recovered from TMGP	-	31,394,065
Property, plant and equipment and intangibles –		
East Toba and Montrose assets under construction	-	(24,637,135)
Intangible asset payments	(280,654)	-
Property, plant and equipment purchases	(66,257,849)	(149,272)
Performance security deposits	(110,000)	10,000,000
Builder's lien holdback deposit account	(5,944,543)	(2,994,755)
Builder's lien holdback payable	6,661,893	3,016,743
Proceeds from sale of marketable securities	-	124,954
Proceeds from sale of office equipment	-	63,221
	(82,026,793)	(17,786,082)
Financing activities:		
Common shares issued for cash	6,428,471	36,005,083
Share issue costs	500	(1,900,720)
Long-term debt	69,900,658	8,061,910
Cash restricted for use in construction activities	(3,701,671)	(8,073,186)
Financing provided by joint equity partner of TMGP	300,844	25,132,753
	72,928,802	59,225,840
Increase (decrease) in cash	(14,939,754)	37,220,192
Cash, beginning of year	43,400,385	6,180,193
Cash, end of year	\$ 28,460,631	\$ 43,400,385

Supplementary cash flow information (note 15)

See accompanying notes to consolidated financial statements.

PLUTONIC POWER CORPORATION

Consolidated Statements of Power Project Development Costs

For the years ended December 31, 2008 and 2007

	East Toba/ Montrose	Upper Toba Valley	Bute Inlet project	Other projects	Rainy River & Hope projects	Total
Balance, December 31, 2006	\$ 9,481,959	\$ 616,867	\$ 264,684	\$ 429,627	\$ 2,181,362	\$ 12,974,499
Engineering and hydrology	3,010,067	743,104	1,798,885	672,430	661,826	6,886,312
Permitting	2,115,464	511,958	692,673	298,976	223,729	3,842,800
Community relations	1,231,891	8,725	266,126	30,512	25,871	1,563,125
Financing and tender bid costs	3,661,998	1,993	22,022	4,141	58,272	3,748,426
Contract costs:						
Salaries	4,148,212	-	-	-	-	4,148,212
Equipment and supplies	10,110,902	-	-	-	-	10,110,902
Transportation	2,596,270	-	-	-	-	2,596,270
Engineering	1,309,955	-	-	-	-	1,309,955
Administrative and other	822,702	10,500	38,500	17,500	-	889,202
Stock-based compensation	2,864,933	73,080	178,935	-	783,063	3,900,011
Fair value of warrants issued for financing	848,253	-	-	-	64,917	913,170
Consulting cost settled in shares	581,250	-	-	-	581,250	1,162,500
Less: prior year accrual	(547,500)	-	-	-	(547,500)	(1,095,000)
Project development costs written off	-	-	-	(40,144)	(418,143)	(458,287)
Recovery of costs from TMGP	(31,394,065)	-	-	-	-	(31,394,065)
Transfer to investment in TMGP	(10,842,291)	-	-	-	-	(10,842,291)
Balance, December 31, 2007	-	1,966,227	3,261,825	1,413,042	3,614,647	10,255,741
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 relations	-	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 6(f))	-	-	-	-	(3,618,181)	(3,618,181)
Project development costs written off	-	-	-	(287,729)	-	(287,729)
Balance, December 31, 2008	\$ -	\$ 6,097,920	\$ 16,464,748	\$ 2,957,837	\$ -	\$ 25,520,505

See accompanying notes to consolidated financial statements.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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, 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 Toba Montrose General Partnership (TMGP), a general partnership formed under the laws of the Province of British Columbia, to own, finance, build and operate the East Toba River and Montrose Creek run-of-river power project (Toba Montrose), which are located at the headwaters of the Toba Inlet in British Columbia. Toba Montrose is to include two separate generation facilities and 150 km of transmission line to interconnect the generation facilities to a new British Columbia Transmission Corporation (BCTC) substation to be located at Saltery Bay, British Columbia. 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 net electricity annually 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 Projects (note 6(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, based on current estimates, the Company and GE would set up project partnerships to hold the awarded EPAs and own, finance and build the projects. These two projects are estimated to require capital costs and financing of approximately \$4 billion. GEEFS intends to fund or arrange 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 is 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, the Company will be required to raise additional financing on its own, and together with GEEFS in the proposed project partnerships, in order to carry out its business plan.

2. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements include the accounts of Plutonic Power Corporation and its wholly owned subsidiary companies, Plutonic Hydro Inc., Plutonic TMP Holdings Inc., Upper Toba Hydro Inc. and Bute Hydro Inc. All significant transactions and balances between the Company and its subsidiaries have been eliminated upon consolidation.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

2. Significant accounting policies (continued):

(a) Basis of presentation (continued):

The Company accounts for its 40% economic interest in TMGP using the proportionate consolidation basis. Accordingly, the Company includes in these consolidated financial statements its 40% share of the assets, liabilities, revenue and expenses of TMGP.

(b) Adoption of new accounting standards:

Effective January 1, 2008, the Company adopted four new Canadian Institute of Chartered Accountants (CICA) accounting standards: (i) Handbook Section 1535, *Capital Disclosures*; (ii) Handbook Section 3862, *Financial Instruments – Disclosures and Handbook Section 3863, Financial Instruments – Presentation*; (iii) EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. The main requirements of these new standards and the resulting financial statement impact are described below.

(i) 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 note 11(d) to the consolidated financial statements.

(ii) 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 note 11 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 classification or presentation of the Company's financial instruments.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

2. Significant accounting policies (continued):

(b) Adoption of new accounting standards:

(iii) EIC-173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities:

On January 20, 2009, the Emerging Issues Committee issued EIC-173, requiring entities to take into account its own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments. As allowed by EIC-173, the Company early adopted the abstract for fiscal 2008. EIC-173 requires retrospective application without restatement of prior periods to all financial assets and liabilities measured at fair value. Any resulting differences upon adoption are recorded as an adjustment to opening deficit, except for derivatives designated as cash flow hedges, in which case differences would be recorded in accumulated other comprehensive income. As a result of the adoption of EIC-173, the opening deficit at January 1, 2008 has decreased by \$143,070.

The Company has taken into account its own credit risk and the credit risk of its counterparties in determining the fair value of its financial assets and liabilities at December 31, 2008.

(c) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets, liabilities, and commitments at the date of the financial statements and the reported amount of revenues and expenses during the reporting periods. Significant items subject to such management estimates and assumptions include the recoverability of power project development costs, property, plant and equipment, intangible assets, and investments, the determination of the fair value of interest rate swap contracts, share based compensation and the determination of future income taxes. Actual results could differ from the estimates and assumptions made in the preparation of these financial statements.

(d) Cash:

Cash consists of deposits with senior banks.

(e) Prepaid guarantee fees:

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

(f) Financial Instruments:

The Company accounts for its financial instruments in accordance with the CICA Handbook Section 3855 *Financial Instruments - Recognition and Measurement*, CICA Handbook Section 3862 *Financial Instruments - Disclosures* and CICA Handbook Section 3863 *Financial Instruments - Presentation*. All financial assets and liabilities are recognized when the Company becomes a party to the contract creating the item at fair value or, in certain circumstances when fair value may not be considered most relevant, at cost or amortized cost. Changes in fair value are recognized in net earnings/loss.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

2. Significant accounting policies (continued):

(g) Power project development costs:

The Company capitalizes direct costs associated with development of its power projects. Costs associated with successful projects are reclassified as intangible assets and amortized over the useful life of the projects. Costs of unsuccessful projects are written off in the year the project is abandoned or when recovery of such costs can no longer be reasonably regarded as assured.

The recovery of power projects development costs is dependent upon the successful completion of the projects or the sale of projects to third parties. The successful completion of the power projects is dependent upon receiving the necessary water and other licences, being awarded an EPA, obtaining the necessary financing to successfully complete the development and construction of the projects, and the long-term generation and sale of sufficient electrical power on a profitable basis.

(h) Property, plant and equipment:

Computer equipment, office equipment, leasehold improvements and vehicles are recorded at cost. Amortization is recorded using the declining balance method at an annual rate of 30% for computer equipment, 20% for office equipment and 30% for vehicles. Amortization for leasehold improvements is recorded using the straight-line method over the term of the lease.

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

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

The Toba Montrose property, plant and equipment will be amortized on a straight line basis over their estimated useful lives, upon commencement of commercial operations.

(i) Intangible assets:

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

These intangible assets will be amortized upon commencement of commercial operations of Toba Montrose on a straight-line basis over the 35 year term of the applicable permits, licenses and agreements.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

2. Significant accounting policies (continued):

(j) Impairment of long-lived assets:

Long-lived assets, including investments, power project development costs, property, plant and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. Recoverability of assets is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows an impairment charge is recognized by the amount that the carrying amount of the asset exceeds its fair value.

(k) Asset retirement obligations:

Asset retirement obligations are recognized in the period in which they are incurred if a reasonable estimate of fair value can be determined. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The liability is accreted over the estimated time period until settlement of the obligation and the asset is amortized over the estimated useful life of the asset.

The fair value of the asset retirement obligations for Toba Montrose cannot be reasonably estimated due to the long service life of these assets and the low probability that these projects would ever be abandoned due to the renewable nature of the electricity being generated. Accordingly, no provision has been made for an asset retirement obligation as at December 31, 2008.

(l) Interest rate swap contracts:

TMGP uses interest rate swaps to manage its exposure to fluctuations in interest rates on its floating rate credit facility (note 10). The interest rate swap contracts are derivative financial instruments and are recognized in the balance sheet and measured at fair value with changes in fair value recognized in the statement of operations, except for the effective portion of interest rate swap contracts designated as a cash flow hedge, which are recognized in accumulated other comprehensive income.

(m) Income taxes:

The Company follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in income tax rates on future tax assets and liabilities is recognized in operations in the year in which the change occurs. A future income tax asset is recorded when the probability of the realization is more likely than not.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

2. Significant accounting policies (continued):

(n) Share-based compensation:

The Company uses the fair value method of accounting for options granted under its stock-based compensation plan. Stock options are measured at the fair value of the consideration received or the fair value of the equity instruments issued whichever is more reliably measurable and are charged to operations over the vesting period. The offset is credited to contributed surplus. Cash received on the exercise of stock options is recorded in share capital and the related compensation included in contributed surplus is transferred to share capital to recognize the total consideration for the shares issued.

(o) Loss per share:

Basic loss per share is calculated by dividing the net loss for the period by the weighted average number of common shares of the Company that were outstanding in the period. Diluted loss per share includes the potential dilution from common share equivalents, such as stock options and warrants. The treasury stock method is used to calculate potential dilution, whereby any expected proceeds from the exercise of options or other dilutive instruments are assumed to be used for the repurchase of common shares at the average market price during the reporting period.

For the years ended December 31, 2008 and 2007, diluted loss per share was the same as basic loss per share as the effect of all outstanding options and warrants would be anti-dilutive.

(p) Comparative figures:

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

(q) Future changes in accounting standards:

(i) International Financial Reporting Standards:

The CICA has announced it will transition Canadian generally accepted accounting principles (GAAP) for publicly accountable entities to International Financial Reporting Standards (IFRS). The Company's consolidated financial statements are to be prepared in accordance with IFRS for the fiscal year commencing January 1, 2011. The impact of the transition to IFRS on the Company's consolidated financial statements has not been determined.

(ii) Goodwill and Intangible Assets:

Effective January 1, 2009, the Company will adopt 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.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

2. Significant accounting policies (continued):

(q) Future changes in accounting standards (continued):

(ii) Goodwill and Intangible Assets (continued):

As a result of the adoption of this standard, certain expenditures incurred that were previously deferred in power project development costs are expected to be written off. In accordance with the transition rules, the Company will adopt the standard retroactively during the first quarter of 2009 and will restate comparative figures. The Company is in the process of quantifying the impact of adopting this standard.

3. Investment in Toba Montrose General Partnership:

(a) In 2007, the Company contributed Toba Montrose and related permits, licences, 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 the partnership and 100 Class B Units of TMGP, which are non-voting and participate in 40% of the distributions of TMGP. After 35 years of operations, the Company's economic interest associated with the Class B Units in TMGP will increase to 51% and its partner's economic interest in TMGP will decrease from 60% to 49%.

The estimated fair value of the intangible assets contributed by the Company to TMGP was \$36.7 million. The Company has included in the consolidated financial statements its proportionate share of the original cost of the assets contributed and has deferred the \$15.5 million gain on contribution of these assets. The deferred gain will be amortized over the 35 year life of the BC Hydro EPA beginning in year 2010.

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

	2008	2007
Cash	\$ 687,059	\$ 340,582
Cash restricted for use in construction activities	11,774,857	8,073,186
GST recoverable	995,732	743,297
Other current assets	235,306	300,467
Performance security deposits	270,000	160,000
Builder's lien holdback deposit account	8,939,298	2,994,755
Property, plant and equipment	109,696,763	36,951,835
Intangible assets	5,303,756	5,023,102
	137,902,771	54,587,224
Accounts payable and accrued liabilities	7,649,620	1,080,580
Interest and fees payable	418,519	77,480
Builder's lien holdback payable	9,678,636	3,016,743
Long-term debt	77,962,568	8,061,910
Interest rate swap contracts	10,270,875	2,881,176
Non-controlling interest	16,116,226	15,906,988
	122,096,444	31,024,877
Net assets	\$ 15,806,327	\$ 23,562,347

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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

(b) Continued:

	2008	2007
Realized and unrealized loss on interest rate swap contracts	\$ 4,063,727	\$ 2,881,176
Other expenses	190,798	15,789
Share of TMGP net loss	\$ 4,254,525	\$ 2,896,965
Cash flow from operating activities	\$ (360,512)	\$ (5,789)
Cash flow from investing activities	(65,755,338)	(37,622,778)
Cash flow from financing activities	66,462,327	37,969,148

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 December 31, 2008, a non-controlling interest of \$16.1 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 (2007 - \$15.9 million).

- (c) The Company is required to contribute a further \$30 million in cash equity to TMGP on or before the earlier of the date TMGP's \$470 million senior credit facilities becomes fully drawn and November 1, 2010. The Company's cash equity contribution has been guaranteed to the senior credit facilities lenders by an affiliate of GE (note 4).
- (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 year ended December 31, 2008, TMGP paid or accrued fees of \$840,000 in relation to this guarantee, of which the Company's proportionate interest was \$336,000 (2007 - \$121,333 and \$48,533 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 year ended December 31, 2008, TMGP paid or accrued fees of \$352,800 in relation to the fee associated with this letter of credit, of which the Company's proportionate interest was \$141,120 (2007 - \$50,960 and \$20,384 respectively).

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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

(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) 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, under the provisions of its IBA's with the Klahoose, Sliammon and Sechelt First Nations. These commitments include signing bonuses; construction access fees; continued access fees; project and training opportunities; and revenue sharing.

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. Prepaid guarantee fee:

In 2007, an affiliate of GE provided a \$30 million guarantee to TMGP's senior debt lenders to support the Company's required \$30 million cash equity contribution (note 3(c)). The Company issued to the GE affiliate 650,000 common share purchase warrants, with each warrant entitling the holder to purchase one common share of the Company at a price of \$9.03 per common share until October 26, 2009. The fair value of the warrants issued to the GE affiliate, as determined using a Black-Scholes pricing model, was \$1,423,500. This amount was recorded as a prepaid guarantee fee and it is being amortized over the estimated 29 month period of the guarantee. Amortization of the prepaid guarantee fee for the year ended December 31, 2008 was \$589,035 (2007 - \$98,172).

	2008	2007
Prepaid guarantee fee	\$ 1,423,500	\$ 1,423,500
Accumulated amortization	(687,207)	(98,172)
	<u>\$ 736,293</u>	<u>\$ 1,325,328</u>

In addition, the Company pays the GE affiliate a guarantee fee of 3% per annum on the face amount of the guarantee. For the year ended December 31, 2008, the Company paid \$900,000 in cash fees associated with the above guarantee (2007 - nil). The Company pledged its assets as security against the guarantee with the GE affiliate.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

4. Prepaid guarantee fee (continued):

In exchange for providing the guarantee, the Company granted GE a right of first offer with respect to any contemplated equity financing by an investor of up to an additional 200 MW of hydroelectric projects under development by the Company and contemplated to be bid into the BC Hydro 2008 RFP. In 2008, the Company and GEEFS signed a memorandum of understanding to jointly bid the Upper Toba Valley and Bute Inlet Projects into the BC Hydro 2008 RFP in November 2008. Note 6(a) further describes this agreement.

5. Builder's lien holdback deposit account:

In 2007, TMGP entered into an Engineering, Procurement, and Construction (EPC) contract with Peter Kiewit Sons Co. (Kiewit) for the construction of Toba Montrose (note 7). The EPC contract requires payment of 10% of construction costs invoiced by Kiewit to be heldback by TMGP for payment upon completion of construction. TMGP is required to deposit the 10% heldback funds in a builder's lien holdback bank account until it is payable. Funds in the builder's lien holdback account (excluding interest earned) can only be disbursed on or after the 56th day following the issuance of a "certificate of completion" (as such term is defined in the *Builders Lien Act*).

6. Power project development costs:

The Company has incurred and capitalized direct costs on 35 run-of-river hydroelectric power development projects, excluding Toba Montrose, located primarily in the southwestern region of British Columbia. 33 of the projects are located within the Company's Green Power CorridorTM, an area in southwest coastal BC, which includes drainages flowing into the Toba, Bute and Knight Inlets.

In connection with the purchase of Plutonic Hydro Inc. in 2003, the Company was required to pay a one-time bonus within 30 days of the later of securing construction financing and the commencement of construction for power projects acquired from and identified subsequently by Knight Piesold, the vendor of Plutonic Hydro Inc. The bonus was payable in shares or cash at the Company's option. In 2007, the Company elected to pay in cash the required bonus of \$745,000 for Toba Montrose.

In 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 agreement included the issuance of 100,000 common share purchase warrants to Knight Piesold exercisable at a price of \$7.93 until May 13, 2010 and a bonus structure if any of the identified projects become commercially viable.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

6. Power project development costs (continued):

(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 1,000 MW of clean, run-of-river hydroelectric capacity in the Toba and Bute Inlets along the southwest coast of British Columbia. The approximate capital cost of these projects is estimated at \$4 billion.

The Company and GEEFS jointly bid the Upper Toba Valley (note 6(c)) and Bute Inlet Projects (note 6(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.

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 between mid-April 2009 and June 2009.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

6. Power project development costs (continued):

The Company's principal power projects are as follows:

(b) East Toba and Montrose Power Project:

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 2007, TMGP reimbursed the Company \$31.4 million which related to project costs funded by the Company prior to the formation of TMGP and the completion of required project financing. The project costs reimbursed by TMGP included \$20.8 million related to costs incurred under limited notice to proceed EPC work orders, \$3.5 million for project development costs, \$2.8 million in project financing, \$1.5 million in insurance costs, \$1.0 million in land tenure license and lease payments, \$0.9 million in project management costs, \$0.8 million in First Nations payments, and \$0.1 million in payments related to BCTC interconnection costs and other expenditures.

(c) Upper Toba Valley Project:

The Upper Toba Valley project consists of three 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 2008, the Company was notified by the EAO that its application for an Environmental Assessment Certificate had been accepted. The Company expects that the environmental assessment process will conclude by the end of the second or third quarter of 2009.

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.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

6. Power project development costs (continued):

(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 Hydroelectric Project (Bute 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 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 project configuration is to interconnect the three groups 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 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 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 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 area 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 to be \$3.6 million, using the Black-Scholes option pricing model. In 2007, the Company wrote down the carrying value of the power project development costs related to the Rainy River and Hope projects to the estimated fair value of the consideration received from AltaGas, resulting in a write-down of \$418,143.

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.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

6. Power project development costs (continued):

(f) Other Projects:

The Company has 15 other power sites with a combined potential generation capacity of 532 MW and potential annual electricity generation of 1,731 GWh. These power sites are located primarily in the southwestern region of British Columbia. The Company continues to collect hydrological data, conduct engineering work and perform other required studies on these power sites.

7. Property, plant and equipment:

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
	<u>\$ 109,984,197</u>	<u>\$ 67,748</u>	<u>\$ 109,916,449</u>

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

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

	2008	2007
Engineering, procurement and construction costs	\$ 96,786,360	\$ 30,167,432
Development costs	1,400,000	1,400,000
BCTC interconnection costs	1,110,640	571,840
Land lease payments	106,983	46,560
Project construction management costs	3,236,409	873,910
Construction insurance costs	1,020,395	698,780
Capitalized net financing costs	6,035,976	3,193,313
	<u>\$ 109,696,763</u>	<u>\$ 36,951,835</u>

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

7. Property, plant and equipment (continued):

In 2007, TMGP executed a \$497 million fixed-price EPC contract with Kiewit for the construction of Toba Montrose, which includes two powerhouses with weirs, intakes, penstocks and generation equipment, a corresponding transmission line, and related development costs including access roads and bridges. As at December 31, 2008, TMGP had incurred or accrued for \$241.1 million under the terms of the EPC contract, of which the Company's proportionate share was \$96.4 million (2007 - \$75.4 million and \$30.2 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 December 31, 2008, TMGP incurred and capitalized \$16.8 million (2007 - \$8.0 million) in financing costs directly attributable to the construction of Toba Montrose, which was offset by \$1.7 million of interest earned on investments for net financing costs of \$15.1 million. The Company's proportionate interest in the capitalized net financing costs was \$6.0 million. The finance costs capitalized 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 9(a)), \$1.4 million of fees paid to GE affiliates for guarantees, letters of credit and financing provided to TMGP, \$7.6 million of interest and stand-by fees paid to the lenders in respect of the long-term debt (note 9(a)), and \$3.1 million of legal fees and other costs directly associated with the financing.

8. Intangible assets:

	2008	2007
Licenses, permits, IBA's, and EPA	\$ 4,336,917	\$ 4,336,917
Payments made to First Nations under terms of IBA's and prepaid land tenure license fees	966,839	686,185
	<u>\$ 5,303,756</u>	<u>\$ 5,023,102</u>

Toba Montrose's generation and other associated facilities are being built within the traditional lands of the Klahoose First Nation and a significant portion of the transmission line being built linking the generation facilities to BCTC's transmission line is located within the traditional lands of the Sliammon and Sechelt First Nations. TMGP recognizes the lands of the Klahoose, Sliammon and Sechelt First Nations and have signed IBA's with these groups. These agreements were initially obtained by the Company and were contributed to TMGP as part of the Company's initial equity contribution, except for the Sechelt IBA, which was signed by TMGP.

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

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

9. 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 December 31, 2008, the lenders had funded \$194.9 million under this credit facility, of which the Company's proportionate interest was \$78.0 million (2007 - \$20.2 million and \$8.1 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 December 31, 2008, 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 10).

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 December 31, 2008 was \$418,519, of which \$6,250 was owed to GE Lender (2007 - \$77,480 and \$6,250 respectively).

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

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

9. 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:

2009	\$	-
2010		-
2011		1,617,456
2012		1,720,333
2013		1,829,753

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 \$370.6 million at December 31, 2008 (2007 - \$162.3 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 December 31, 2008, a total of \$29.4 million (2007 - \$20.2 million) was being held by TMGP in escrow of which the Company's proportionate interest was \$11.8 million (2007 - \$8.1 million). Funds held in escrow are invested in one month bankers' acceptances with yields at December 31, 2008 ranging from 1.450% per annum to 1.498% per annum.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

10. 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 9(a)(ii)). The notional amount of the swap at December 31, 2008 was \$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 commencing December 31, 2007.

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 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.

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:

	2008	2007
Short Dated Interest Rate Swap	\$ 2,182,527	\$ 308,052
Long Dated Interest Rate Swap	8,088,348	2,573,124
Total Interest Rate Swap Contract Liabilities	\$ 10,270,875	\$ 2,881,176

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

10. Interest rate swap contracts (continued):

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	Unrealized loss
Short Dated Interest Rate Swap:			
Period from June 27, 2007 to December 31, 2007	\$ -	\$ (308,052)	\$ -
Period from January 1, 2008 to December 31, 2008	(169,714)	(1,856,559)	-
Long Dated Interest Rate Swap:			
Period from June 27, 2007 to December 31, 2007	\$ -	\$ (2,573,124)	\$ -
Period from January 1, 2008 to July 15, 2008	-	(1,157,494)	-
Period from July 15, 2008 to December 31, 2008	-	(879,960)	(3,638,756)
Period from January 1, 2008 to December 31, 2008	-	(2,037,454)	(3,638,756)
Total			
Period from June 27, 2007 to December 31, 2007	\$ -	\$ (2,881,176)	\$ -
Period from January 1, 2008 to December 31, 2008	\$ (169,714)	\$ (3,894,013)	\$ (3,638,756)

11. Financial instruments:

Financial instrument assets include cash, cash restricted for use in construction activities, performance security deposits and builder's lien holdback deposit account which are designated as held-for-trading and measured at fair value, and amounts receivable, GST recoverable and interest receivable which are designated as loans and receivables and measured at amortized cost. The Company's investment in special warrants is classified and measured as disclosed in note 6(f). Financial instrument liabilities include accounts payable and accrued liabilities, interest and fees payable, due to related parties, builder's lien holdback payable and long-term debt. All financial liabilities are designated as other liabilities and are measured at amortized cost. Financial instruments of the Company also include the interest rate swap contracts which are derivative financial instruments (note 10).

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

11. Financial instruments (continued):

(a) Fair values of financial instruments:

The carrying values of cash, cash restricted for use in construction activities, performance security deposits, builder's lien holdback account, amounts receivable, GST recoverable, interest receivable, accounts payable and accrued liabilities, and interest and fees payable approximate their fair values due to the relatively short period to maturity of the instruments. The carrying value of the builder's lien holdback payable was not materially different from its fair value on December 31, 2008. The fair value of the Company's proportionate interest in the fixed rate long-term debt was determined to be \$69.1 million and the carrying value was \$78.0 million on December 31, 2008. The \$8.9 million difference was the result of the market rates at December 31, 2008 being higher than the contractual rates of 6.288% and 6.173% for the construction and operating loans respectively. The interest rate swap contracts are carried at fair value as disclosed in note 10.

(b) Derivative financial instruments:

TMGP and the Company use interest rate swap contracts to assist in forward planning for the business as it relates to managing its exposure to fluctuations in interest rates over the 38 year period of the floating rate portion of the long-term credit facilities. TMGP and the Company do not expect any credit losses due to non-performance by the counterparty to the interest rate swap contracts as the counterparty is TMGP's bankers, a major Canadian financial institution.

(c) Financial risk management:

The Company's Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in response to the Company's activities. Through its standards and procedures, management has developed a disciplined and constructive control environment in which all employees understand their roles and obligations. Management regularly monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

The Company has exposure to credit, liquidity and market risks from its use of financial instruments.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and at December 31, 2008 arises mainly from its receivables and its cash, including its restricted cash, performance security deposits and builder's lien holdback deposit account. The carrying amount of these assets (approximately \$50.8 million) represents the Company's maximum exposure to credit risk. There has been no significant change to the Company's credit risk from the prior year. The Company only carries amounts receivable due to an arrangement whereby the Company pre-pays for shared costs and is reimbursed for these costs from a third party. The Company does not expect any third parties to fail to meet their obligations, nor has the Company incurred any credit losses on such receivables over the past few years. The Company has no allowance for doubtful accounts at either December 31, 2008 or December 31, 2007.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

11. Financial instruments (continued):

(c) Financial risk management (continued):

The Company and TMGP limit their exposure to credit risk arising from cash by only holding cash with major financial institutions.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet obligations associated with financial liabilities and commitments as they become due. The Company manages liquidity risk through the management of its capital structure and financial leverage and also continuously monitors actual and projected cash flows. The Company believes that future cash flows generated through access to equity capital and banking markets and cash flows generated by TMGP upon commencement of operations of Toba Montrose will be adequate to meet its financial obligations. The Company's overall liquidity risk has not changed significantly from December 31, 2007.

The following table details the contractual maturities at the balance sheet date of the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payment computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Company can be required to pay.

\$ thousands	Carrying Amount	Total Contractual Undiscounted Cash Flows	Within 1 Year or on Demand	More than 1 Year but less than 2 Years	More than 2 Years but less than 5 Years	More than 5 Years
The Company's contractual maturities:						
Accounts payable and accrued liabilities	3,781	(3,781)	(3,781)	-	-	-
The Company's proportionate interest in contractual maturities:						
Accounts payable and accrued liabilities	7,650	(7,650)	(7,650)	-	-	-
Interest and fees payable	419	(419)	(419)	-	-	-
Builder's lien holdback payable	9,679	(9,679)	-	(9,679)	-	-
Long-term debt	77,963	(200,555)	(4,902)	(4,902)	(16,454)	(174,297)
Interest rate swap (net settled)	10,271	(37,503)	(910)	(1,258)	(4,484)	(30,851)
Total	109,763	(259,587)	(17,662)	(15,839)	(20,938)	(205,148)

In addition, the Company is required to contribute \$30.0 million in cash to TMGP on or before the earlier of the date TMGP's senior credit facilities become fully drawn and November 1, 2010.

Currency risk

Currency risk is the risk that changes in foreign exchange rates will affect the fair value or future cash flows of the Company's financial instruments. The Company's financial instruments are not exposed to changes in foreign exchange rates.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

11. Financial instruments (continued):

(c) Financial risk management (continued):

Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect the fair value or future cash flows of the Company's financial instruments. The Company is exposed to interest rate risk through its cash and its proportionate share of TMGP's long-term debt and interest rate swap instruments (note 10).

At December 31, 2008 and December 31, 2007, the Company's interest-bearing financial instrument assets are as follows:

	Carrying amount	
	2008	2007
Cash	\$ 28,460,631	\$ 43,400,385

The Company's proportionate interest in cash restricted for use in construction activities, performance security deposits and builders' lien holdback deposit account are subject to interest rate risk. However, interest income from these investments is capitalized to property, plant and equipment as part of the net financing cost of assets under construction and, as such, fluctuations in interest rates for these financial instruments would not have impacted equity or earnings.

Based on the balances as at December 31, 2008, a change of 100 basis points (BPS) in interest rate would have changed equity, interest income and cash by \$0.3 million for the year ended December 31, 2008 (2007 - \$0.4 million).

At December 31, 2008 and December 31, 2007, the Company's interest-bearing financial liabilities are as follows:

	Carrying amount	
	2008	2007
Fixed rate instruments		
Fixed rate debt (note 9(a)(i))	\$ (77,962,568)	\$ (8,061,910)

Variable rate instruments

Floating rate debt (note 9(a)(ii))	\$ -	\$ -
Interest rate swap contracts (note 10)	\$ (10,270,875)	\$ (2,881,176)

The Company does not account for the fixed rate debt as held for trading. Therefore, a change in interest rates at the reporting date would not affect net earnings or equity with respect to this fixed rate instrument.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

11. Financial instruments (continued):

(c) Financial risk management (continued):

For the variable rate instruments, a change of 100 BPS in interest rates at the reporting date would have increased (decreased) net earnings and equity by the amounts shown below. The cash flow sensitivity is based on the amount of the actual floating rate debt drawn and the interest rate swap contracts outstanding at December 31, 2008. If the amount of the floating rate debt had been drawn and matched the corresponding notional amount under the interest rate swap, the cash flow impact would have been nil. This analysis was performed on the same basis for 2007.

	Comprehensive income increase (decrease)		Equity increase (decrease)	
	100 BPS increase	100 BPS decrease	100 BPS increase	100 BPS decrease
December 31, 2008				
Floating rate debt	\$ -	\$ -	\$ -	\$ -
Interest rate swap contracts	5,089,377	(6,155,306)	5,089,377	(6,155,306)
December 31, 2007				
Floating rate debt	\$ -	\$ -	\$ -	\$ -
Interest rate swap contracts	5,120,170	(6,445,803)	5,120,170	(6,445,803)

At December 31, 2008, approximately \$1.5 million of the increase and \$1.7 million of the decrease in comprehensive income resulting from a 100 BPS change in interest rates would be recorded as part of net earnings, with the remainder being recorded in other comprehensive income. At December 31, 2007, the entire change in comprehensive income would have been recorded in net earnings.

(d) Capital structure and management:

The Company's capital structure is comprised of shareholders' equity plus its proportionate share of TMGP's long-term debt. The Company's objectives when managing its capital structure are to:

- (i) minimize dilution to existing equity shareholders of the Company in its development and construction of its power projects until the Company can generate sufficient cash flow to finance its growth internally; and
- (ii) maintain financial flexibility in order to preserve the Company's access to capital markets and its ability to maintain its financial obligations.

The Company manages its capital structure and makes adjustments according to market conditions to maintain flexibility while achieving the objectives stated above. To manage the capital structure, the Company may adjust the timing of the development of its power projects and/or enter into joint ventures to finance some or all of its project equity requirements.

The Company's capital management objectives have not changed from December 31, 2007. At December 31, 2008 neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements. TMGP will be subject to certain financial covenants in its credit facility agreement once Toba Montrose becomes operational in 2010.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

12. 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, 2006	30,455,002	\$ 27,873,654
Issued for cash from private placement	7,100,000	32,305,000
Share issue costs	-	(2,082,764)
Issued for cash on exercise of warrants	1,826,141	2,926,501
Issued for cash from exercise of options	782,850	773,582
Issued per terms of a termination agreement	250,000	1,162,500
Transfer from contributed surplus on exercise of vested options	-	702,242
Transfer from contributed surplus on exercise of vested warrants	-	353,818
Balance, December 31, 2007	40,413,993	64,014,533
Refund of share issue costs	-	500
Issued for cash on exercise of warrants	2,083,860	5,071,001
Issued for cash from exercise of options	1,693,650	1,357,470
Transfer from contributed surplus on exercise of vested options	-	1,462,826
Transfer from contributed surplus on exercise of vested warrants	-	2,210,099
Balance, December 31, 2008	44,191,503	\$ 74,116,429

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

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

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

12. Share capital (continued):

(c) Share purchase warrants:

The continuity of share purchase warrants during the year ended December 31, 2008 is as follows:

Expiry date	Exercise price	Balance Dec 31, 2007	Issued	Exercised	Expired	Balance, Dec 31, 2008
March 28, 2008	\$1.75	46,875	-	(46,875)	-	-
August 29, 2008	\$2.50	1,830,000	-	(1,830,000)	-	-
November 9, 2008	\$2.00	206,985	-	(206,985)	-	-
October 26, 2009	\$9.03	650,000	-	-	-	650,000
May 13, 2010	\$7.93	-	100,000	-	-	100,000
		2,733,860	100,000	(2,083,860)	-	750,000

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

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

(d) Stock options:

The Company grants stock options to directors, officers and employees of the Company and persons who provide ongoing services to the Company under an incentive stock option plan. In 2007, the Company received shareholder approval at its annual general shareholder meeting for the amendment of the incentive stock option plan to increase the number of common shares available for issue from 3,640,996 to 6,000,000. As of December 31, 2007, the Company had granted the entire number of common shares available for issue under this plan, of which 1,199,500 remain outstanding as of December 31, 2008.

In 2008, the Company approved a new rolling Incentive Stock Option Plan (Rolling Plan). The Rolling Plan is a "rolling" stock option plan rather than a "fixed number" stock option plan, which provides that the maximum number of options which may be granted under the Rolling Plan will be equal to 10% of the number of shares of the Company which may be outstanding from time to time. Any exercise of options will make new grants available under the Rolling Plan.

Of the 3,395,550 options outstanding at the time of the Rolling Plan approval, 2,112,250 were transferred to the Rolling Plan and the rest remained subject to the old plan. No further options will be granted under the old plan. However, the old plan will continue in effect until the options retained under the old plan have been exercised, terminated or expired.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

12. Share capital (continued):

(d) Stock options (continued):

The exercise price of stock options is no less than the closing price of shares on the business day immediately preceding the date on which the option is granted. Under the Rolling plan, options vest over three years, with 1/3 of the grant vesting at the end of the first year, and the remaining 2/3 of the grant vesting on a monthly basis over the remaining 24 months. Options expire no later than five years from the grant date, except that they expire within 60 days when the holder is no longer qualified to hold the option (other than for cause, when the option expires immediately).

Under the old plan, a number of options vest at the rate of 25% on the date of the grant and 25% every six months thereafter, while a number of options vest over three years, with 1/3 of the grant vesting at the end of each completed year from the date of grant.

A summary of share option activity and information concerning outstanding and exercisable options at December 31, 2008 and December 31, 2007 is as follows:

	Options granted	Weighted average exercise price
Balance, December 31, 2006	3,512,500	\$ 1.03
Options granted - approved	2,615,000	4.70
Options exercised	(782,850)	0.99
Options cancelled	(412,500)	3.91
Balance, December 31, 2007	4,932,150	2.74
Options granted - approved	1,150,000	7.39
Options exercised	(1,693,650)	0.80
Options cancelled	(90,000)	7.39
Balance, December 31, 2008	4,298,500	\$ 4.65

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

12. Share capital (continued):

(d) Stock options (continued):

The following table summarizes information concerning outstanding and exercisable options at December 31, 2008:

Grant date	Expiry date	Number outstanding	Weighted average exercise price	Weighted remaining contractual life (in years)	Vested and exercisable	
					Number	Weighted average exercise price
May 17, 2004	May 17, 2009	62,500	\$0.32	0.38	62,500	\$0.32
Nov 23, 2004	Nov 24, 2009	124,000	\$0.75	0.90	124,000	\$0.75
Mar 27, 2006	Mar 27, 2011	100,000	\$0.80	2.24	100,000	\$0.80
June 7, 2006	June 7, 2011	317,000	\$1.65	2.43	317,000	\$1.65
July 10, 2006	July 10, 2011	190,000	\$1.63	2.52	190,000	\$1.63
July 25, 2006	July 25, 2011	150,000	\$2.12	2.56	150,000	\$2.12
Nov 14, 2006	Nov 14, 2011	8,000	\$2.10	2.87	8,000	\$2.10
Dec 18, 2006	Dec 18, 2011	74,000	\$2.80	2.96	74,000	\$2.80
Mar 27, 2007	Mar 26, 2012	350,000	\$4.20	3.24	350,000	\$4.20
Mar 28, 2007	Mar 27, 2012	1,303,000	\$4.25	3.24	1,303,000	\$4.25
Apr 20, 2007	Apr 19, 2012	230,000	\$5.28	3.30	230,000	\$5.28
May 14, 2007	May 13, 2012	100,000	\$7.28	3.37	100,000	\$7.28
May 22, 2007	May 21, 2012	150,000	\$7.30	3.39	50,000	\$7.30
Jul 11, 2007	Jul 10, 2012	27,500	\$7.80	3.53	9,167	\$7.80
Sept 13, 2007	Sept 12, 2012	47,500	\$6.90	3.70	15,833	\$6.90
Apr 15, 2008	Apr 14, 2013	885,000	\$7.70	4.29	-	\$7.70
Sept 8, 2008	Sept 7, 2013	150,000	\$6.40	4.69	-	\$6.40
Nov 25, 2008	Nov 24, 2013	30,000	\$2.16	4.90	-	\$2.16
		4,298,500	\$4.65	3.28	3,083,500	\$3.59

As at December 31, 2008, there were 1,199,500 options outstanding under the old stock option plan, 3,099,000 under the rolling plan, and 1,320,150 options available for grant under the rolling stock option plan.

On April 15, 2008, the Company granted 970,000 stock options at an exercise price of \$7.70 per share to employees of the Company. These grants were approved by shareholders on May 14, 2008. On September 8, 2008, the Company granted and approved 150,000 stock options at an exercise price of \$6.40 per share to employees of the Company. On November 25, 2008, the Company granted and approved 30,000 stock options at an exercise price of \$2.16 per share to employees of the Company. The weighted average approval-date fair value of stock options granted during the year ended December 31, 2008 was \$3.84 per share. The weighted average grant-date fair value of stock options granted during the year ended December 31, 2007 was \$4.66 per share. The Company determines the fair value of the options granted using the Black-Scholes option pricing model, recognizing forfeitures as they occur, using the following weighted average assumptions:

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

12. Share capital (continued):

(d) Stock options (continued):

	2008	2007
Risk-free interest rate	1.5% to 4.0%	3.9% to 4.0%
Expected life	1.5 to 5.0 years	2.5 to 4.0 years
Expected volatility	36% to 69%	55% to 73%
Expected dividend yield	Nil	Nil

13. Contributed surplus:

Balance, December 31, 2006	\$ 2,250,761
Share-based compensation expense	3,785,883
Fair value of options issued to consultants	96,540
Fair value of options and warrants capitalized to power project costs	4,813,181
Fair value of warrants issued with respect to guarantee fees (note 4)	1,423,500
Fair value of compensation warrants issued for equity financing	182,043
Transfer to share capital on exercise of vested options	(702,242)
Transfer to share capital on exercise of warrants	(353,818)
Balance, December 31, 2007	11,495,848
Share-based compensation expense	3,035,126
Fair value of options and warrants capitalized to power project costs	1,426,452
Fair value of options capitalized to property, plant and equipment	57,701
Transfer to share capital on exercise of vested options	(1,462,826)
Transfer to share capital on exercise of warrants	(2,210,099)
Balance, December 31, 2008	\$ 12,342,202

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

14. Income taxes:

The significant components of the Company's future income tax assets and liabilities at December 31, 2008 and 2007 are as follows:

	2008	2007
Future income tax assets:		
Loss carry forwards	\$ 7,282,496	\$ 4,196,457
Property, plant and equipment	160,442	7,097
Eligible capital property	79,780	57,849
Interest rate swap contract	2,670,428	777,918
Deferred gain on transfer of assets	2,014,301	2,091,775
Share issue costs	1,002,558	760,530
Total future income tax assets	13,210,005	7,891,626
Future income tax liabilities:		
Power project development costs	(2,681,380)	(817,439)
Intangible assets	(1,021,825)	(884,216)
Investment in TMGP	(2,874,000)	(2,754,936)
Total future income tax liabilities	(6,577,205)	(4,456,591)
Net future income tax asset	6,632,800	3,435,035
Valuation allowance	(6,632,800)	(3,435,035)
Net future income tax	\$ -	\$ -

The Company's income tax expense differs from the amounts computed by applying the combined federal and provincial income tax rate of 31.00% (2007 - 34.12%) to pre-tax losses as a result of the following:

	2008	2007
Loss before income taxes	\$ 14,323,907	\$ 10,644,912
Statutory tax rate	31.00%	34.12%
Recovery of income taxes based on statutory income tax rates	\$ 4,440,411	\$ 3,632,044
Increase (decrease):		
Effect of change in valuation allowance	(3,197,765)	(2,510,500)
Effect of non-deductible items	(1,139,628)	(1,340,961)
Change due to change in statutory tax rate	(130,000)	-
Other	26,982	219,417
Future income tax recovery	\$ -	\$ -

At December 31, 2008, the Company has unrecognized non-capital losses for income tax purposes of approximately \$27.6 million (2007 - \$15.5 million) that may be used to offset future taxable income. These losses, if not utilized, will expire between 2009 and 2028.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

15. Supplemental cash flow information:

	2008	2007
Supplementary information:		
Interest and fees paid	\$ 2,586,574	\$ 626,190
Interest received	1,859,111	1,224,220
Non-cash transactions:		
Fair value of options and warrants capitalized to power project development costs	1,302,952	4,813,181
Fair value of warrants issued for power project financing	123,500	-
Fair value of options for TMGP employees capitalized to property, plant and equipment	57,701	-
Sale of Rainy River and Hope projects for special warrants in AltaGas	3,614,647	-
Shares issued for settlement agreement capitalized to power projects	-	1,162,500
Fair value of warrants issued for prepaid guarantee fee	-	1,423,500
Fair value of compensation warrants issued for equity financing	-	182,044
Fair value of warrants for settlement agreement capitalized to projects	-	153,375
Cash is comprised of:		
Cash of the Company	\$ 27,773,572	\$ 43,059,803
Company's proportionate interest in cash of TMGP	687,059	340,582
	\$ 28,460,631	\$ 43,400,385

16. Commitments:

In addition to commitments previously disclosed in note 3, the Company's minimum future lease payments for office space are as follows, paid monthly in advance:

2009	\$ 258,449
2010	262,981
2011	254,961
2012	169,974
2013	-
Total	\$ 946,365

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

17. Subsequent events:

In 2007, the Company, on behalf of TMGP, applied for funding of a one cent per kilowatt-hour incentive under the ecoEnergy for Renewable Power program, payable for up to 10 years for electricity generated and sold by Toba Montrose. The ecoEnergy program provides incentive funding to increase Canada's supply of clean electricity from renewable sources, including low-impact hydro projects such as Toba Montrose. In 2008, TMGP was notified that its application had passed basic qualification criteria and its environmental assessment documents were being reviewed as part of the application review process.

Subsequent to December 31, 2008, TMGP and the Government of Canada formally signed an agreement for the funding of one cent per kilowatt-hour of electricity generated by Toba Montrose and sold to BC Hydro for the first ten years of operations.