

# PLUTONIC POWER CORPORATION

FORM 51 – 102F1

## MANAGEMENT DISCUSSION AND ANALYSIS NINE MONTH PERIOD ENDED SEPTEMBER 30, 2004

November 8, 2004

This Management's Discussion and Analysis is as of September 30, 2004 and supplements, but does not form part of, the unaudited interim consolidated financial statements of the Company and the notes thereto. Consequently, the following discussion and analysis of the financial condition and the results of operations for Plutonic Power Corporation ("Plutonic" or the "Company"), should be read in conjunction with the unaudited interim consolidated financial statements for the period ended September 30, 2004 and related notes therein, which have been prepared in accordance with the Canadian generally accepted accounting principles, consistently applied.

Additional information, including audited consolidated financial statements, and the notes thereto, for the year ended December 31, 2003, can be found on SEDAR at [www.sedar.com](http://www.sedar.com)

### Overall Performance

Plutonic Power Corporation (the Company) is a green energy hydroelectric development company involved in sixteen run of river projects in British Columbia. The Company trades on the TSX Venture Exchange under the symbol PCC.

Since the end of the 1<sup>st</sup> quarter, the Company has completed the purchase of a 100% interest in 648795 B.C. Ltd. through the issuance of 1,532,500 common shares and closed a non – brokered private placement financing for gross proceeds of \$567,500. At the Hope projects environmental, wildlife and hydrological studies have continued and a detailed transmission interconnection study has been completed. The same studies have been ongoing for the Green Power Corridor Projects ("GPC") as well as initial contact has been made with a number of First Nations Groups that may have an interest in the area within the GPC. In October the company announced its 16<sup>th</sup> project at Rainy River Howe Sound British Columbia. While preliminary design and engineering work continues to suggest that the Hope and GPC Projects are viable, they are each dependant on securing an energy purchase agreement, equity and debt financing for construction and interconnection with the transmission grid.

### Hope Projects

Stages 1 and 2 towards securing a Water License and Crown Land rights from Land and Water British Columbia, a crown corporation of the Government of British Columbia have been completed for the three Hope Projects. Knight Piesold Ltd. has been conducting on going hydrological studies at Ruby, American and Emery Creeks. Initial desk top designs for the projects were for the construction of three projects with a combined installed capacity of about 50 megawatts ("MW") and the potential to generate approximately 200 gigawatt hours per year ("GW.h"). Capital cost estimates are \$75 million. Results of a full year of on site hydrological studies have indicated that Emory and American Creeks may have less run off than original estimates and the future of these projects will need to be reconsidered. Ruby Creek studies have shown the project continues to compare favourably to original design estimates. An interconnection study has also recently been completed for the Ruby Creek Project and shows that interconnection at the BC Hydro substation at Waleach is economically and technically possible.

## **Rainy River**

In October a development agreement was announced for the Rainy River Project with Howe Sound Pulp and Paper Limited partnership. Stages 1 and 2 towards securing a Water License and Crown Land rights from Land and Water British Columbia, a crown corporation of the Government of British Columbia have been completed for the project. Initial desk top designs for the projects were for the construction of three projects with a combined installed capacity of about 15 MW and the potential to generate approximately 56 GW.h. Capital cost estimates are \$26 million.

## **Green Power Corridor**

The Green Power Corridor Projects are comprised of two projects at the top of Toba Inlet, one project in the Upper Lillooet valley, nine projects at the top of Bute Inlet and three projects at the top of Knight Inlet. Stages 1 and 2 towards securing a Water License and Crown Land rights from Land and Water British Columbia have been completed for the Toba Inlet, Lillooet and Bute Inlet Projects. The three project applications at Knight Inlet remain incomplete at this time and due to the remote location and timeline associated with their development Plutonic shall not be furthering them at this time. The Toba Inlet, Lillooet and Bute Inlet Projects collectively will have combined installed capacity of about 757 MW and the potential to generate approximately 2565 GWh/year. Preliminary capital cost estimates for the two groups of projects are approximately \$1 billion.

The east Toba and Montrose projects were accepted into the Environmental Assessment Permitting Process ("EAO"). It is expected that the permitting process will take up to 18 months. As part of the process series of consultation meetings have been held with various federal and provincial government agencies as well as with First Nations groups and the community of Powell River.

Development of the Green Power Corridor Projects is dependant on numerous obstacles including interconnection to the British Columbia Transmission Corporation transmission grid. Various interconnection options have been considered. The most promising option appears to be the development of the GPC projects in a phased approach beginning with the initial concurrent development of East Toba and Montrose with the construction of a 230 kV 160 kilometer long transmission line connecting to the grid at Saltery Bay, located east of Powell River. These two projects (Phase 1a) will have a combined installed capacity of about 170 MW and the potential to generate approximately 630 GWh/year. Once completed a stepped approach will be used for the development of the other GPC projects.

## **Financial Overview**

Financial losses for the first nine months of 2004 were up significantly over the losses incurred in the nine months ended September 30, 2003. The December 2003 financing was closed within the nine month period, 2,270,000 shares were issued generating \$538,171 in working capital. 775,000 warrants and options were exercised generating an additional \$193,000. A total of 1,532,500 shares were also issued for the acquisition of 648795 B.C. Ltd. (Note 2 and 6 of Financial Statements).

Administration expenses were higher during the nine month period, \$324,245 (2003-\$9,673). Expenses were generally up in all categories over the previous year as the Company increased its activities in several areas. Management fees, support costs and legal fees increased significantly as did listing and filing fees. The Company's policy of using fair-value for share-based compensation expenses (Black Scholes) increased the net loss by \$149,560 in 2004. There was no share-based compensation in the same period last year. The Company also abandoned its interest (\$30,000) in the Tide mineral property.

The Company currently has a working capital deficiency as at September 30, 2004 of \$69,744 compared to a net working capital of \$599,588 as at December 31, 2003. Expenditures in acquiring the power projects, loan repayment and increased administration expenses are the reasons for the decline in working capital. Additional financing is currently being planned.

## Results of Operations

The Company incurred a net loss in the nine months ending September 30, 2004, of \$324,245 (\$0.04 per share) compared to a net loss of \$9,673 (\$0.01) in the nine months ending September 30, 2003. The current quarter ending September 30, 2004 loss was \$109,128 compared to \$13,282 for the same three month period of 2003. Share based compensation, \$149,560 (2003 - \$0) and a mineral property write off, \$30,000 (2003 - \$0) amounted to 55% of the total loss for the nine month period.

Support services increased to \$44,999 (2003 - \$2,726) for the nine month period and to \$24,637 (2003-\$2,726) for the three month period ending September 30, 2004. This was a result of additional staff and expenses required for the operation of the company. Management fees, \$28,988 (2003 - \$1,333) for the nine month period and \$10,870 (2003-\$1,333) for the current three month period, were higher due to a change in fee structure and generally higher expenditures overall. Legal and accounting fees of \$33,326 were incurred in the nine month period (2003 - \$4,273) for the current quarter expenses amounted to \$11,183 compared to \$1,616 last year.

It should be noted that the Company was in the start up stages in 2003, the main reason for increased expenses in 2004 has been the effective commence of active development of the run of river projects and related administration thereof.

## Summary of Quarterly Results

The following table summarizes information regarding the companies operations on a quarterly basis for the last two fiscal years

Quarter	Revenue	Loss before Extraordinary Items			Net Loss		
		Loss	Per Share	Per Diluted Share	Loss	Per Share	Per Diluted Share
Sept 30, 2004	\$ 0	109,128	\$ 0.02	\$ 0.03	\$ 109,128	\$ 0.02	\$ 0.03
June 30, 2004	0	116,091	0.02	0.03	116,091	0.02	0.03
Mar 31, 2004	0	99,026	0.02	0.03	99,026	0.02	0.03
Dec 31, 2003	0	79,620	0.02	0.03	129,567	0.04	0.05
Sept 30, 2003	0	13,282	0.01	0.01	13,282	0.01	0.01
June 30, 2003	0	40,038	0.02	0.03	40,038	0.02	0.02
Mar 31, 2003	0	12,966	0.01	0.01	12,966	0.06	0.06
Dec 31, 2002	0	16,527	0.01	0.01	16,527	0.01	0.01
Sept 30, 2002	0	22,818	0.02	0.03	22,818	0.02	0.03

## Liquidity and Capital Resources

Plutonic Power Corporation. has no history of profitable operations and its projects are at an early stage. Therefore, it is subject to many risks common to comparable companies, including under-capitalization, cash shortages and limitations with respect to personnel, financial and other resources as well as a lack of revenues.

Plutonic Power Corporation is very dependent upon personal efforts and commitments of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the operations of Plutonic could result and other persons would be required to manage and operate the Company

The Company had a working capital deficiency of \$69,744 at September 30, 2004 compared to a net working capital of \$599,588 the fiscal year end. Subsequent to September 30, the exercising of warrants generated a further \$193,000 in working capital. The current level of working capital will not be sufficient for the remainder of the 2004 fiscal year at the budgeted levels of expenditures, additional financing will be arranged in 2004.

The Company's issued and outstanding shares were 5,903,000 at December 31, 2003. 2,270,000 shares were issued for cash during the six month period generating \$538,171 (net of share issue costs, \$29,329) and the exercise of share purchase warrants and options (760,000) added a further \$193,000 to the treasury. The Company also issued 1,532,500 for the acquisition of 648795 B.C. Ltd. These transactions increased the Company's issued and outstanding shares to 8,437,500 at September 30, 2004.

The Company issued 782,000 director and employee common share purchase options during the period, these options are exercisable at \$0.32 and expire on May 17, 2009. A further 150,000 officers common share purchase warrants were issued and exercisable at \$0.65 expiring on September 29, 2009. In total 1,667,000 director, employee and officers common share purchase options remain outstanding. A total of 2,316,000 share purchase warrants remain outstanding at September 30, 2004. If all remaining options and warrants are exercised, a maximum of \$1,345,640 will be added to Plutonic's treasury and the outstanding shares will total 12,834,500.

### **Risk Factors**

The ability of Plutonic to become a viable run of river hydro electric company is dependant on a number of factors and is not limited to the following; successful completion of hydrological studies to confirm that water flows are sufficient to generate enough electricity to provide a suitable return on investment, the successful negotiation of a long term contract with a purchaser of energy for the company's' projects, the ability to secure financing to construct the projects, the successful negotiation with First Nations groups that may have a claim to the land base where Plutonic's projects lie, the ability to connect the projects to the electrical grid and being able to secure long term financing to construct any projects that are deemed to be feasible once all permits and designs are in place.

### **Off-Balance Sheet Arrangements**

The Company does not utilize off-balance sheet arrangements

### **Transactions with Related Parties**

During the nine month period ending September 30, 2004, the Company reimbursed McGillicutty Management Corp., a company owned by a director and officer of the company, \$28,988 (2003 -- \$1,333) for management fees and administration expenses.

### **Proposed Transactions**

There are no proposed transactions that will materially affect the Company's performance. The Company has a business plan that includes identifying other green energy projects, conducting initial engineering and design studies and if found feasible the company will endeavour to secure long term financing to facilitate the construction thereof

### **Critical Accounting Estimates**

Not applicable

### **Changes in Accounting Policies Including Initial Adoption**

The Company adopted the new accounting recommendations of the Canadian Institute of Chartered Accountants on accounting for share-based compensation of employees and non-employees during this fiscal year. These recommendations established the standards described in the Notes to the consolidated financial statements for the measurement, recognition and disclosure of compensation and other costs arising from the issue of share purchase options and other share-based payments to employees and non-employees. The Company accounted for these recommendations on the retroactive basis.

**Financial Instruments and Other Instruments**

The Company does not employ a hedging strategy or a foreign exchange protection strategy. All of the Company's expenses are denominated in Canadian dollars.

**Other Requirements**

The Company has filed an alternate form of Annual Information Form on SEDAR at [www.sedar.com](http://www.sedar.com). The Company also files all press releases and material change reports on SEDAR. Additional information about the Company can be accessed at the Company's website <http://www.plutonic.ca>.

**Additional Disclosure for Venture Issuers without Significant Revenue**

Please refer to the Statement of Loss and Deficit in the June financial statements regarding the components of general and administrative and exploration costs for the Company.

**Disclosure of Outstanding Share Data**

Please refer to Note 4 of the June financial statements.

**PLUTONIC POWER CORPORATION**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**Nine Months Ended September 30, 2004**  
**(Unaudited – prepared by management)**

**FORM 51- 102F1**

**PLUTONIC POWER CORPORATION**

**Consolidated Balance Sheet**  
September 30, 2004  
(Unaudited – prepared by management)

	<b>September 30 2004</b>	<b>December 31 2003</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 107,562	\$ 592,989
Accounts receivable	55,111	3,661
Prepaid financing costs	--	16,000
	162,673	612,650
<b>Power Projects</b> (Note 4)	1,524,101	155,000
	\$ 1,686,774	\$ 767,650
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable (Note 8)	\$ 232,417	\$ 13,062
<b>SHAREHOLDERS' EQUITY</b>		
Share Capital (Note 6)	2,053,286	806,332
Share Subscriptions	--	372,500
Contributed Surplus (Note 6)	180,873	31,313
Deficit	(779,802)	(455,557)
	1,454,357	754,588
	\$ 1,686,774	\$ 767,650

**APPROVED BY THE BOARD**

“Donald A. McInnes” Director

“R. Stuart Angus” Director

**PLUTONIC POWER CORPORATION**

**Consolidated Statement of Loss and Deficit**  
For the Nine Months Ended September 30, 2004  
(Unaudited – prepared by management)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
<b>Expenses</b>				
Accounting and legal	\$ 11,183	\$ 1,616	\$ 33,326	\$ 4,273
Due diligence costs	--	--	--	(10,835)
Listing and filing fees	99	3,522	19,078	3,522
Management fees	10,870	1,333	28,988	1,333
Property abandonment	--	--	30,000	--
Rent	6,745	1,500	11,945	4,500
Share based compensation	55,688	--	149,560	--
Support services	24,637	2,726	44,999	2,726
Transfer agent	(94)	2,585	6,349	4,154
<b>Net Loss</b>	<b>109,128</b>	<b>13,282</b>	<b>324,245</b>	<b>9,673</b>
<b>Deficit, Beginning of Period</b>	<b>670,674</b>	<b>325,990</b>	<b>455,557</b>	<b>329,599</b>
<b>Deficit, End of Period</b>	<b>\$ 779,802</b>	<b>\$ 339,272</b>	<b>\$ 779,802</b>	<b>\$ 339,272</b>
<b>Loss Per Share</b>	<b>\$ 0.02</b>	<b>\$ 0.01</b>	<b>\$ 0.04</b>	<b>\$ 0.01</b>

**PLUTONIC POWER CORPORATION**

**Consolidated Statement of Cash Flows**  
For the Nine Months Ended September 30, 2004  
(Unaudited – prepared by management)

	<b>Three Months Ended September 30</b>		<b>Nine Months Ended September 30</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
<b>Cash Flows Used for Operating Activities</b>				
Cash paid to suppliers	\$ (15,998)	\$ (34,185)	\$ 505,488	\$(132,058)
<b>Cash flows From Financing Activities</b>				
Share subscriptions received (Note 6)	--	--	245,000	
Share issue costs paid	(4,616)	--	(33,945)	(19,127)
Shares issued for cash	143,000	383,000	143,000	500,000
Loan payment	--	--	(126,838)	--
	138,384	383,000	227,217	480,873
<b>Cash Flows Used for Investing Activities</b>				
Power project expenditures	(79,428)	--	(213,656)	--
Property acquisition and exploration costs	--	(28,000)	--	(28,000)
Proceeds from sale of investment	--	--	6,500	--
	(79,428)	(28,000)	(207,156)	(28,000)
<b>Increase in Cash</b>	42,958	320,815	(485,427)	320,815
<b>CASH, Beginning of Period</b>	64,604	89,983	592,989	89,983
<b>CASH, End of Period</b>	\$ 107,562	\$ 410,798	\$107,562	\$ 410,798

**PLUTONIC POWER CORPORATION**

**Notes to Consolidated Financial Statements**

September 30, 2004

(Unaudited – prepared by management)

**1. OPERATIONS**

The company was incorporated on May 18, 1999, under the name 585571 B.C. Ltd., pursuant to the provisions of the *Company Act, British Columbia*. The company changed its name to Plutonic Capital Corp. on July 8, 1999, to Plutonic Capital Inc. on August 12, 2003 and to Plutonic Power Corporation on May 17, 2004. During the previous fiscal period the company changed its year end from June 30 to December 31.

On May 17, 2004, the company acquired all the outstanding shares of 648795 B.C. Ltd. (Notes 2 and 5). The company's principal business operations are now the acquisition, construction and operation of independent power generation projects.

These financial statements have been prepared on the basis that the company is a going concern, which presumes that the company will continue operations for the foreseeable future and will be able to realize assets and discharge liabilities in the normal course of business. These financial statements do not reflect the adjustment or reclassifications which would be necessary if the company was unable to continue operations.

**2. SIGNIFICANT ACCOUNTING POLICIES**

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

**Acquisition and Basis of Presentation**

These consolidated financial statements include the accounts of the company and its wholly-owned subsidiary company, Plutonic Hydro Ltd. and have been prepared using the purchase method of accounting for business combinations.

The company acquired all the outstanding shares of 648795 B.C. Ltd. on May 17, 2004 at a cost of \$490,400 through the issuance of 1,532,500 common shares at a deemed value of \$0.32. The net assets acquired were:

Cash and receivables	\$ 35,572
Water licenses	335,905
Power project expenditures	318,682
Liabilities	<u>(707,309)</u>
	(17,150)
Deemed value of shares issued	<u>490,400</u>
Net acquisition cost of power projects	\$ <u>507,550</u>

**PLUTONIC POWER CORPORATION**

**Notes to Consolidated Financial Statements**

September 30, 2004

(Unaudited – prepared by management)

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

The company has agreed to issue additional shares in connection with this acquisition (Note 6).

**Power Projects**

The company accounts for its power projects by accumulating and deferring the costs associated with the projects until the projects have been completed. Costs associated with successful projects are reclassified as capital assets and amortized over the productive life of the project. Costs associated with unsuccessful projects are written off in the year the determination to abandon the project is made.

The recoverability of the accumulated power project costs is dependent upon the confirmation of economically recoverable reserves, the ability of the company to obtain the necessary financing to successfully complete their development and to meet the requirements, from time to time, of lenders who are providing this financing and upon future profitable production.

**Share-based Compensation**

The company issues options to purchase shares under the terms described in Note 6.

When options to purchase shares are issued to employees or directors, the fair value of the options on the date of the grant is recognized as a compensation expense, with a corresponding increase in contributed surplus, over the period during which the related options vest. When options to purchase shares are issued to non-employees in return for goods or services, the fair value of the options issued is recognized as an expense, with a corresponding increase in contributed surplus, in the period in which the goods or services are received or are expected to be received.

The consideration received on the exercise of share options is credited to share capital.

**Loss Per Share**

The basic loss per share is calculated on the basis of the weighted average number of common shares of the company that were outstanding in each reporting period. The diluted loss per share, which is disclosed only if dilutive, includes the potential dilution from share purchase options, calculated using the treasury stock method, in the weighted average number of shares.

**PLUTONIC POWER CORPORATION**

**Notes to Consolidated Financial Statements**

September 30, 2004

(Unaudited – prepared by management)

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions about future events that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**3. ACCOUNTING CHANGES**

During the period ended December 31, 2003 the company adopted the new accounting recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for share-based compensation. These recommendations established standards described in Notes 2 and 6 for the measurement, recognition and disclosure of compensation and other costs arising from the issue of share purchase options and other share based payments to employees and non-employees. The company has accounted for these recommendations on the prospective basis.

**4. POWER PROJECTS**

The company's wholly-owned subsidiary company, 648795 B.C. Ltd., has completed stages 1 and 2 towards securing water licenses and crown land rights from Land & Water BC, a crown corporation of the Government of British Columbia for the development of fifteen run of river hydroelectrical power projects. The potential generating capacity of these projects is approximately 900 megawatts. The current estimated capital costs to achieve this generating capacity are \$1,200 million.

**5. MINERAL PROPERTY**

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

The company wrote off the costs it had incurred on the Tide property on December 31, 2003 and wrote off the value of the shares it issued to Rimfire in March 2004 as consideration for that company's acceptance of the Serengeti option.

**PLUTONIC POWER CORPORATION**

**Notes to Consolidated Financial Statements**

September 30, 2004

(Unaudited – prepared by management)

**6. SHARE CAPITAL**

Authorized

100,000,000 common shares without par value

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

Issued and outstanding

	<b>Number of Shares</b>	<b>Amount</b>
<b>Common shares</b>		
Issued and fully paid		
Issued for cash on incorporation	1	\$ 1
Issued for cash	999,999	99,999
Issued for cash, net of share issue costs of \$59,541	1,300,000	200,459
<hr/>		
Balance June 30, 2003	2,300,000	300,459
Share consolidation 2 to 1	(1,150,000)	-
Issued for cash, net of share issue costs of \$19,127	2,500,000	480,873
Issued for mineral properties	50,000	10,000
Issued for cash on the exercise of warrants	625,000	156,000
Issued for mineral property	100,000	30,000
Issued for cash, net of share issue cost of \$29,329	2,270,000	538,171
Issued for cash on exercise of warrants and options	210,000	52,000
Share issue costs	--	(4,617)
Issued for acquisition of 648795 B.C. Ltd. (Note 2)	1,532,500	490,400
<hr/>		
<b>Balance, September 30, 2004</b>	<b>8,437,500</b>	<b>\$ 2,053,286</b>

900,000 of the issued common shares are subject to the escrow restrictions stipulated by the Exchange.

The company has agreed to issue additional shares for the acquisition of 648795 B.C. Ltd. (Note 1), the number of which will be determined as 20% of the shares outstanding after the company has raised an additional \$432,500 through the issue of shares. The company has also agreed to issue additional shares, or make a cash payment, when two power projects obtained on the acquisition of 648795 B.C. Ltd. secure construction financing and commence construction. The number of shares or cash payment will be based on the generating capacity of those projects.

**PLUTONIC POWER CORPORATION**

**Notes to Consolidated Financial Statements**

September 30, 2004

(Unaudited – prepared by management)

**6. SHARE CAPITAL (continued)**

The company issues share purchase options to directors, officers, and employees of the company and persons who provide ongoing services to the company under an incentive stock option plan dated May 3, 2004 and has reserved 20% of the outstanding common shares for issue of share purchase options under this plan. The exercise price of share purchase options will be no less than the closing price of the shares on the business day immediately preceding the date on which the option is granted. Options will normally vest at the rate of 25% on the date of the grant and 25% every six months thereafter. Options will expire no later than five years from the grant date, except that they will expire within ninety days when the holder is no longer qualified to hold the option (other than for cause, when the option will expire immediately).

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

Options	Number of Shares			Balance, Sept 30, 2004	Exercisable at Sept. 30, 2004	Price Per Share Exercise price and grant date fair value	Expiry Date	Grant Date
	Balance, Dec. 31, 2003	Granted during the period	Exercised during the period					
Directors	103,750	-	-	103,750	103,750	\$0.20	2/03/05	31/08/99
Officers	7,500	-	-	7,500	7,500	\$0.20	2/03/05	31/08/99
Employees	2,500	-	-	2,500	2,500	\$0.20	2/03/05	31/08/99
Directors	526,250	-	-	526,250	394,688	\$0.20	8/09/08	8/09/03
Officers	20,000	-	-	20,000	15,000	\$0.20	8/09/08	8/09/03
Employees	80,000	-	5,000	75,000	55,000	\$0.20	8/09/08	8/09/03
Directors	-	412,000	-	412,000	103,000	\$0.32	5/17/09	5/17/04
Officers	-	25,000	-	25,000	6,250	\$0.32	5/17/09	5/17/04
Employees	-	120,000	-	120,000	30,000	\$0.32	5/17/09	5/17/04
Consultants	-	225,000	-	225,000	56,250	\$0.32	5/17/09	5/17/04
Officers	-	150,000	-	150,000	37,500	\$0.65	9/29/09	9/29/04
	740,000	932,000	5,000	1,667,000	811,438			

Warrants	Number of Shares	Price Per Share	Expiry Date	Issue Date
	460,000	\$0.32	30/11/04	12/08/03
	2,270,000	\$0.31	01/06/06	01/06/04

**PLUTONIC POWER CORPORATION****Notes to Consolidated Financial Statements**

September 30, 2004

(Unaudited – prepared by management)

**6. SHARE CAPITAL (continued)**

The company determines the fair value of the options granted during a year using the Black-Scholes option pricing model. The following assumptions were used in valuing the options granted during the year:

Average risk-free interest rate	2.5%
Expected share price volatility	630%
Expected average period until exercise	3 years
Expected dividend yield	-

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

	<b>Three Months Ended Sept. 30, 2004</b>	<b>Nine Months Ended Sept. 30, 2004</b>	<b>Six Months Ended Dec. 31, 2003</b>
Share-based compensation	\$ 55,688	\$ 149,560	\$ 31,313
Contributed surplus	180,873	180,873	31,313

The company adopted the policy for share based compensation of employees and non-employees, as described in Note 2, during the current fiscal period. In accordance with the requirements of the CICA Handbook, the company will account for this change in policy on a prospective basis. The company will, accordingly, record compensation expense only for options vesting during the current fiscal period and subsequently and will not record any compensation expense for options which vested in prior years. The proceeds on exercise of those options will be recorded in share capital when they are exercised. Had the company recorded the compensation expense for options which vested in prior years retroactively, the impact on the financial statements would have been:

	<b>Year Ended June 30</b>	
	<b>2003</b>	<b>2002</b>
Share-based compensation expense	\$ -	\$ 22,750
Net loss, as reported	40,038	27,374
Net loss, pro forma	40,038	50,124
Deficit, pro forma	\$ 348,740	\$ 308,702
Loss per share, pro forma	\$ 0.04	\$ 0.04

**PLUTONIC POWER CORPORATION**

**Notes to Consolidated Financial Statements**

September 30, 2004

(Unaudited – prepared by management)

**7. FINANCIAL INSTRUMENTS**

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

**8. RELATED PARTY TRANSACTIONS**

The company paid \$8,824 (2002 - \$5,605) during the three months ended June 30, 2004 to a company owned by the president of the company for office services and reimbursements of disbursements.

Accounts payable at June 30, 2004 include \$94,010 payable for engineering services to a company which is a significant shareholder and has a director in common as a result of the acquisition of 648795 B.C. Ltd. (Notes 2 and 6).

**9. INCOME TAXES**

The Company has incurred losses for income tax purposes of approximately \$425,000 which can be carried forward to reduce taxable income in future years. If unused, these losses will expire in various years commencing in 2006.

The potential benefits arising from these losses have not been recorded in these financial statements.

**10. SUBSEQUENT EVENTS**

On October 28, 2004, the company announced it had successfully completed Stages 1 and 2 towards securing a Water License and Crown Land rights from Land and Water British Columbia, a crown corporation of the Government of British Columbia, for the development of a 15 MW run-of-river hydroelectric power generation project on Rainy River, near Sechelt, British Columbia.

On November 2, 2004, the Company reluctantly accepted the resignation of Jeremy Haile, P.Eng. from its Board of Directors. Mr. Haile has resigned for personal reasons due to his extensive travel commitments in servicing clients around the world.