

# **PLUTONIC POWER CORPORATION**

**Interim Consolidated Financial Statements  
For the Six Months ended June 30, 2007**

**(unaudited)**

**(expressed in Canadian Dollars)**

## **NOTICE TO READER**

**(These Interim Consolidated Financial Statements have been prepared by the management of Plutonic Power Corporation and have not been reviewed by the auditors of Plutonic Power Corporation.)**

# PLUTONIC POWER CORPORATION

## Consolidated Balance Sheets

(unaudited)

	<u>June 30</u> <u>2007</u>	<u>December 31</u> <u>2006</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 23,700,107	\$ 6,180,193
Accounts receivable	594,860	213,758
Interest receivable	360,868	146,694
Marketable securities (Note 3)	281,250	22,500
Prepaid expenses	82,708	89,350
	<u>25,019,793</u>	<u>6,652,495</u>
<b>Power Project Development Costs</b> (Note 4)	<b>32,504,525</b>	12,974,499
<b>Performance Security Deposits</b> (Note 4)	<b>12,660,000</b>	12,660,000
<b>Equipment</b> (Note 5)	<b>113,033</b>	35,644
	<u>70,297,351</u>	<u>32,322,638</u>
<b>TOTAL ASSETS</b>	<b>\$ 70,297,351</b>	<b>\$ 32,322,638</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 3,619,748	\$ 2,519,204
Payable to related parties (Note 6)	78,307	85,184
Short term loans and accrued interest (Note 9)	2,742,466	2,593,698
	<u>6,440,521</u>	<u>5,198,086</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share Capital (Note 7)	61,723,499	27,873,654
Contributed Surplus (Note 8)	8,235,036	2,250,761
Deficit	(6,360,455)	(2,999,863)
Accumulated Other Comprehensive Income	258,750	-
	<u>63,856,830</u>	<u>27,124,552</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 70,297,351</b>	<b>\$ 32,322,638</b>

APPROVED BY THE BOARD:

“Donald A. McInnes” Director

“R. Stuart Angus” Director

**PLUTONIC POWER CORPORATION**  
**Interim Consolidated Statements of Comprehensive Loss**  
**For the Three and Six Months ended June 30, 2007 and 2006**  
(unaudited)

	<b>Three Months ended June 30</b>		<b>Six Months ended June 30</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Expenses</b>				
Amortization	\$ 5,202	338	\$ 9,394	676
Management fees	14,773	41,612	27,122	73,726
Office	77,761	18,564	132,101	33,730
Professional fees	57,032	4,418	89,728	8,668
Project evaluation	130,695	-	130,695	-
Rent	58,510	6,161	105,153	14,227
Salaries	282,330	67,737	537,198	102,347
Share-based compensation (Note 8)	2,056,690	172,362	2,243,121	225,422
Transfer agent and listing fees	178,303	9,720	198,746	16,506
Travel and promotion	204,501	62,394	398,369	118,227
<b>LOSS BEFORE THE FOLLOWING</b>	<b>3,065,797</b>	<b>383,306</b>	<b>3,871,627</b>	<b>593,529</b>
<b>Interest income</b>	<b>(361,565)</b>	<b>(7,216)</b>	<b>(511,035)</b>	<b>(7,216)</b>
<b>LOSS BEFORE OTHER COMPREHENSIVE INCOME</b>	<b>2,704,232</b>	<b>376,090</b>	<b>3,360,592</b>	<b>586,313</b>
<b>Unrealized gain on investment</b>	<b>(157,500)</b>	<b>-</b>	<b>(237,750)</b>	<b>-</b>
<b>COMPREHENSIVE LOSS FOR THE PERIOD</b>	<b>2,546,732</b>	<b>376,090</b>	<b>3,122,842</b>	<b>586,313</b>
<b>BASIC AND FULLY DILUTED LOSS PER SHARE</b>	<b>\$ 0.07</b>	<b>0.02</b>	<b>\$ 0.09</b>	<b>0.04</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	<b>38,024,453</b>	<b>17,387,894</b>	<b>34,430,622</b>	<b>15,231,062</b>

# PLUTONIC POWER CORPORATION

Interim Consolidated Statements of Deficit and Accumulated Other Comprehensive Income  
For the Six Months ended June 30, 2007 and 2006  
(unaudited)

	<u>2007</u>	<u>2006</u>
<b>DEFICIT, BEGINNING OF PERIOD</b>	\$ (2,999,863)	\$ (1,806,296)
Loss Before Other Comprehensive Income	(3,360,592)	(586,313)
<b>DEFICIT, END OF PERIOD</b>	<b>\$ (6,360,455)</b>	<b>\$ (2,392,609)</b>
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME, BEGINNING OF PERIOD</b>	\$ 21,000	\$ -
Unrealized gain on investment	237,750	-
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME, END OF PERIOD</b>	<b>\$ 258,750</b>	<b>\$ -</b>

# PLUTONIC POWER CORPORATION

## Interim Consolidated Statements of Cash Flows

For the Three and Six Months ended June 30, 2007 and 2006

(unaudited)

	Three Months ended June 30		Six Months ended June 30	
	2007	2006	2007	2006
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Comprehensive Loss	\$ (2,546,732)	(376,090)	\$ (3,122,842)	(586,313)
Items not requiring (providing) cash				
Amortization expense	5,202	338	9,394	676
Share-based compensation expense	2,056,690	172,362	2,243,121	225,422
Share-based compensation for consultants	48,566	-	71,824	-
Unrealized gain on investment	(157,500)	-	(237,750)	-
	(593,774)	(203,390)	(1,036,253)	(360,215)
Changes in non-cash working capital components				
Accounts receivable	(40,566)	69,979	(381,102)	32,315
Interest receivable	(107,703)	-	(214,174)	-
Prepaid expenses	(978)	(26,921)	6,642	(23,421)
Accounts payable and accrued liabilities	(3,185,296)	152,251	1,100,544	122,231
Payable to related parties	40,371	17,852	(6,877)	(15,135)
Less: Liabilities relating to power project development costs	3,557,039	(153,526)	(764,687)	(117,272)
	(330,907)	(143,755)	(1,295,907)	(361,497)
<b>Investing Activities</b>				
Tender security deposits	-	(647,438)	-	(647,438)
Power project development costs	(10,593,158)	(1,132,044)	(13,682,179)	(1,830,435)
Purchase of equipment	(14,320)	-	(86,783)	-
	(10,607,478)	(1,779,482)	(13,768,962)	(2,477,873)
<b>Financing Activities</b>				
Common shares issued for cash	32,519,336	671,400	34,490,775	3,287,800
Share issue costs	(1,906,075)	(977)	(1,905,992)	(15,476)
	30,613,261	670,423	32,584,783	3,272,324
<b>INCREASE (DECREASE) IN CASH</b>	<b>19,674,876</b>	<b>(1,252,814)</b>	<b>17,519,914</b>	<b>432,954</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>4,025,231</b>	<b>1,705,963</b>	<b>6,180,193</b>	<b>20,195</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 23,700,107</b>	<b>453,149</b>	<b>\$ 23,700,107</b>	<b>453,149</b>
<b>Supplementary Information on Non-Cash Transaction</b>				
FV of options & warrants for financing of power projects	-	-	1,519,870	-
FV of compensation warrants issued for equity financing	-	-	182,044	-
FV of employee options capitalized to power projects	2,089,837	-	2,252,021	-
Accrued Interest relating to power projects	74,794	-	148,767	-
Shares issued for settlement agreement	1,162,500	-	1,162,500	-

# PLUTONIC POWER CORPORATION

## Interim Consolidated Statements of Power Project Development Costs

For the Six Months ended June 30, 2007

(unaudited)

	East Toba / Montrose	Rainy River	Other GPC Projects	Other	Total
<b>Balance, December 31, 2005</b>	\$1,899,476	\$440,092	\$769,440	\$729,684	\$3,838,692
Engineering and hydrology	2,297,078	296,319	194,150	187,106	2,974,653
Permitting	263,096	20,587	80,666	32,796	397,145
Community relations	789,763	48,249	511	436	838,959
Tender bid costs	685,221	598,678	-	5,267	1,289,166
Financing costs	1,541,599	102,677	-	-	1,644,276
Contract costs	2,005,726	-	-	-	2,005,726
Project evaluation costs written off	-	-	-	(14,118)	(14,118)
Subtotal	7,582,483	1,066,510	275,327	211,487	9,135,807
<b>Balance, December 31, 2006</b>	9,481,959	1,506,602	1,044,767	941,171	12,974,499
Engineering and hydrology	1,224,586	996,354	795,491	175,951	3,192,382
Permitting	1,734,971	192,165	444,509	109,962	2,481,607
Community relations	1,115,167	20,044	11,408	4,808	1,151,427
Tender bid costs	141,454	139,372	2,150	-	282,976
Financing costs	2,343,758	298,479	2,000	-	2,644,237
Contract costs	9,747,541	-	70,000	-	9,817,541
Project evaluation costs written off	-	-	(32,449)	(7,695)	(40,144)
Subtotal	16,307,477	1,646,414	1,293,109	283,026	19,530,026
<b>Balance, June 30, 2007</b>	<b>\$25,789,436</b>	<b>\$3,153,016</b>	<b>\$2,337,876</b>	<b>\$1,224,197</b>	<b>\$32,504,525</b>

**PLUTONIC POWER CORPORATION**  
**Notes to the Interim Consolidated Financial Statements**  
June 30, 2007  
(unaudited)

**1. OPERATIONS**

Plutonic Power Corporation and its wholly owned subsidiary companies, Plutonic Hydro Inc., Plutonic TMP Holdings Inc. and Toba Montrose 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 operation of economically viable clean power projects. The Company currently intends to deliver and sell electricity to BC Hydro beginning in 2010 under a 35 year Electricity Purchase Agreement ("EPA") from two run of river generation facilities to be built on the East Toba River and Montrose Creek. The facilities will have a combined capacity of 196 MW and will generate approximately 745 gigawatt hours ("GWh") per annum of electricity.

**2. SIGNIFICANT ACCOUNTING POLICIES**

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies;

**Basis of Presentation**

These interim consolidated financial statements include the accounts of Plutonic Power Corporation and its wholly owned subsidiary companies, Plutonic Hydro Inc. and Toba Montrose Hydro Inc. There has been no transaction to date for Plutonic TMP Holdings Inc. Inter-company transactions and balances are eliminated upon consolidation. Certain of the comparative period figures have been reclassified to conform to the current period's presentation.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets, and commitments at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates due to factors such as changes in economic conditions, regulatory matters and negotiations with other parties.

**Power Project Development Costs**

The Company capitalizes direct costs associated with development of its power projects. Costs associated with successful projects are reclassified as capital assets and amortized over the useful life of the projects. Costs of unsuccessful projects are written off in the period the project is abandoned.

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

**PLUTONIC POWER CORPORATION**  
**Notes to the Interim Consolidated Financial Statements**  
June 30, 2007  
(unaudited)

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

**Marketable Securities**

Marketable securities are carried at market value.

**Equipment**

Equipment is recorded at cost. Amortization is recorded using the declining balance method at an annual rate of 30% for computer equipment and 20% for office furniture and equipment.

**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 tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using enacted or substantially enacted income tax rates. The effect of a change in income tax rates on future tax assets and liabilities is recognized in operations in the period in which the change occurs. A future income tax asset is recorded when the probability of the realization is more likely than not.

**Flow-Through Financing**

The Company has previously issued flow-through shares to finance some of its development costs. Such shares were issued for cash in exchange for the Company giving up the tax benefits arising from the development costs. The amount of these tax benefits are renounced to investors in accordance with Canadian tax legislation. The Company records such share issuances by crediting share capital for the full value of the cash consideration. When the tax benefits are renounced to investors, the Company reduces share capital and a future income tax liability is recorded.

**Share-Based Compensation**

The Company uses the fair value method of accounting for options granted under its stock-based compensation plan. Stock options to employees are measured at the fair value of the consideration received or the fair value of the equity instruments issued whichever is more reliably measurable and are charged to operations over the vesting period. Stock options granted to consultants are valued at the time the options vest and at every reporting period for those not yet vested. The offset is credited to contributed surplus. Cash received on the exercise of stock options is recorded in share capital and the related compensation included in contributed surplus is transferred to share capital to recognize the total consideration for the shares issued.

**Asset retirement obligations**

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

**PLUTONIC POWER CORPORATION**  
**Notes to the Interim Consolidated Financial Statements**  
June 30, 2007  
(unaudited)

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

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

**Loss per Share**

Basic loss per share is calculated using the weighted average number of common shares of the Company that were outstanding in each reporting period. Diluted loss per share includes the potential dilution from common share equivalents, such as stock options and warrants, were exercised. 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. Common share equivalents have been excluded from the computation of diluted earnings per share for this reporting period.

**Changes in Accounting Policies**

Effective January 1, 2007, the Company adopted two new Canadian Institute of Chartered Accountants ("CICA") accounting standards: Handbook Section 1530, Comprehensive Income and Handbook Section 3855, Financial Instruments – Recognition and Measurement. These new standards prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and whether fair value or cost-based measures are used and establish a new measure of income, comprehensive income, to represent the change in net assets other than changes attributable to transactions with the Company's shareholders.

Pursuant to this standard, the Company is required to classify each of its financial instruments and restate their carrying values to market where required. No retroactive application of this standard is required. Commencing January 1, 2007, the Company's marketable securities have been classified as available for sale and as such were revalued from \$22,500 carrying cost to \$43,500 market value with the \$21,000 unrealized gain recorded in Other Comprehensive Income. These financial instruments are revalued to market at each succeeding reporting period.

**3. MARKETABLE SECURITIES**

Marketable securities consisted of common shares of a public company.

	<u>June 30, 2007</u>		<u>December 31, 2006</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Marketable Securities	\$22,500	\$281,250	\$22,500	\$43,500

Upon adoption of the new CICA Handbook Section 3855, the Company designates its marketable securities as available for sale and as such, they were valued at market value as of June 30, 2007. They were valued at cost at December 31, 2006. Unrealized changes to market value are adjusted to Other Comprehensive Income.

**PLUTONIC POWER CORPORATION**  
**Notes to the Interim Consolidated Financial Statements**  
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(unaudited)

**4. POWER PROJECTS**

The Company has incurred and capitalized direct costs on 31 run-of-river hydroelectric power development sites located primarily in the southwestern region of British Columbia. 24 of the sites are located within the Company's green power corridor, located in the headwaters of the Toba, Bute and Knight Inlets, northeast of Powell River, BC.

In connection with the purchase of Plutonic Hydro Inc. in 2003, the Company is required to pay a one-time bonus within 30 days of the later of securing construction financing and the commencement of construction for power projects acquired from and presented subsequently by the vendors of Plutonic Hydro Inc. The bonus, payable in shares or cash at the Company's option, is to be calculated as \$1,000 per GWh of energy per year to be generated on each of these power projects. The Company expects to pay a bonus of approximately \$745,000 in 2007 once the East Toba and Montrose project is financed and construction commences.

The Company's principal power projects are as follows:

**East Toba River and Montrose Creek Power Project, Green Power Corridor**

The East Toba and Montrose development sites are located at the headwaters of the Toba Inlet on the East Toba River and Montrose Creek respectively. The combined designed capacity is 196 MW with expected annual average electricity generation of 745 GWh.

In June 2007, the Company and GE Energy Financial Services ("GE"), through a Canadian affiliate, signed a definitive Partnership Agreement ("Partnership") through which GE will invest up to \$112 million to acquire 49% equity and 60% economic interest in the East Toba and Montrose project for the first 35 years of operations. Subsequently, GE's economic interest will reduce to 49% from 60% and the Company's economic interest will increase from 40% to 51%. GE's contribution will be made up of \$100 million in equity and \$12 million available for its share of cost overruns.

The Company will contribute the project and associated permits, licences, Impact and Benefits Agreement ("IBA") with Klahoose and Sliammon First Nations, EPA with BC Hydro and \$30 million in equity to be contributed after GE's \$100 million equity contribution and the senior debt facility have been fully drawn. The \$30 million equity contribution will be used to fund an increase in capacity of the 230 kilovolt transmission line to be built from the Toba Valley to SALTERY Bay, British Columbia. The Company will receive the right to use, subject to a priority use agreement, any additional unused capacity of the transmission line for its three additional Upper Toba Valley sites with generation capacity of 120 MW. In the interim, GE will provide the Company with a bridge credit facility of \$30 million until the Company is required to fund its \$30 million of equity. In return, the Company will grant GE the right to negotiate to finance up to an additional 200 MW of other hydroelectric power projects in British Columbia and will issue to GE 650,000 two year common share purchase warrants with an exercise price to be determined upon closing. The Company would also have to fund its pro-rata share of any project cost overruns if any.

GE and Manulife Financial are co-leading a \$470 million senior secured debt offering to complete

**PLUTONIC POWER CORPORATION**  
**Notes to the Interim Consolidated Financial Statements**  
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(unaudited)

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

the financing of the project. The Company expects the Partnership to close this debt offering, sign a fixed price EPC (engineering, procurement, construction) contract and complete the partner's respective contributions by the end of August 2007.

Since November 2006, the Company has engaged Peter Kiewit Sons Co. ("Kiewit") and has funded final project engineering and the purchase of a number of pre-fabricated bridges and construction camp to maintain a construction schedule that will allow the project to commence operations in 2010. In July 2007, the Company authorized Kiewit through an expanded limited notice to proceed to begin construction of 60 kilometres of access roads and 11 bridges and related infrastructure to access and build the generation facilities. To June 30, 2007, the Company spent \$11.7 million under this limited notice to proceed.

The Company was granted 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 in June 2007. Provincial Environmental Certification from the British Columbia Environmental Assessment Office ("EAO") was received in April 2007. The Certificate contains a number of commitments that the Company must implement throughout various phases of the project, including mitigation measures to protect wildlife and areas of cultural significance to the Klahoose, Sliammon and Sechelt First Nations. Also, in May 2007, Fisheries and Oceans Canada, Indian and Northern Affairs Canada and Transport Canada rendered positive decisions in their environmental screening report after their screening level review under the Canadian Environmental Assessment Act. This allows each of these agencies to issue any required construction and operating permits for the project.

During the first quarter of 2007, the Company and the Klahoose First Nation finalized an IBA which facilitated Klahoose First Nation support for the development of this project. The IBA includes annual payments to the Klahoose First Nation and employment and training opportunities for the Klahoose First Nation members during construction and operation of the project. The project's generation facilities will be built within the traditional land of the Klahoose First Nation.

In April 2007, the Company finalized an IBA with the Sliammon First Nation to facilitate Sliammon First Nation support for the development of this project. A significant portion of the transmission line linking the project's generation facilities to the British Columbia Transmission Corporation grid will be located within the traditional land of the Sliammon First Nation. The IBA includes annual payments to the Sliammon First Nation and employment and training opportunities for the Sliammon First Nation members during construction and operation of the project.

In 2006, the Company entered these two power projects under one bid into the 2006 BC Hydro Call for Tender and was awarded a 35 year EPA with commencement of electrical power delivery in July 2010. The BC Utilities Commission approved the EPA for the East Toba and Montrose project. The Company posted an \$11.76 million performance bond together with a fully executed EPA with BC Hydro. In addition, GE provided \$2.5 million of credit support which the Company used to post the performance bonds (Note 9).

**PLUTONIC POWER CORPORATION**  
**Notes to the Interim Consolidated Financial Statements**  
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**4. POWER PROJECTS (continued)**

**Other Green Power Corridor Projects**

The other Green Power Corridor (“GPC”) projects in British Columbia include three development areas:

- The Upper Toba Valley area with 3 power sites have combined potential capacity of 120 MW and potential annual electricity generation of 390 GWh. These 3 sites are located near the headwaters of Toba Inlet, approximately 100 km north of Powell River, BC and were added in April 2007
- The Bute Inlet area with 15 power sites have combined potential capacity of 890 MW and potential annual electricity generation of 2,750 GWh. 4 of these 15 sites were added in May 2007 and 2 of these 15 sites were added in July 2007
- The Knight Inlet area with 3 power sites have combined potential capacity of 150 MW and potential annual electricity generation of 470 GWh

The Company successfully completed Stages 1 and 2 towards securing a Water License and Crown Land rights from the Integrated Land Management Bureau (Ministry of Agriculture and Lands) and the Water Stewardship Division (Ministry of the Environment) for all of the new power sites added in 2007.

In July 2007, the Company submitted the Upper Toba Valley project to the EAO for the construction of three run of river generation facilities on Dalgleish Creek, Jimmie Creek and the Upper Toba River. The EAO has issued a Section 10 order that binds the Upper Toba Valley project to the Environmental Assessment Act. The Company intends to complete the permitting for the Upper Toba Valley project in early 2009.

The Company is conducting hydrological, environmental and permitting work on all of its other green power corridor power projects with the anticipation that it will enter a number of these power projects into the next BC Hydro Call for Tender expected to occur in late 2007/early 2008.

**Rainy River Power Project, Gibsons, Howe Sound**

The Rainy River power project is located near Gibsons, British Columbia. The designed capacity is 14 MW with an expected annual average electricity generation of approximately 50 GWh.

In August 2007, the Company advised BC Hydro of its intention to exit the EPA for the 14 MW Rainy River run of river project due to unexpected complexities in the environmental permitting process caused by the discovery of a number of fish species in the area. Complexities in permitting have decreased certainty around the timing for the project commercial operation date. The Company will need to pay a cancellation fee of \$100,662 to BC Hydro and will receive \$900,000 of performance security deposits back from BC Hydro.

**PLUTONIC POWER CORPORATION**  
**Notes to the Interim Consolidated Financial Statements**  
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**4. POWER PROJECTS (continued)**  
**Rainy River Power Project, Gibsons, Howe Sound (continued)**

In 2006, the Company entered the Rainy River power project into the 2006 BC Hydro Call for Tender and was awarded a 35 year EPA. The Company posted a \$0.9 million performance bond together with a fully executed EPA with BC Hydro. Concurrently, the Company granted GE the right to match any equity investment offer that the Company receives for the Rainy River project as part of the transaction with GE on the East Toba and Montrose project. The BC Utilities Commission approved the EPA for the Rainy River power project.

In 2004, the Company entered into an agreement with the Howe Sound Pulp and Paper Limited Partnership (“HSLP”) to jointly develop this power project. This agreement was extended in 2006. Under the terms of this agreement, the Company will receive an 80% interest in the cash flow from this project after receiving full repayment of its costs plus, a 10% fee in connection with the construction of the plant, including interest at bank prime rates plus 4% per annum (calculated quarterly). HSLP will have the remaining 20% interest in the cash flow of the project once the Company is fully repaid for its costs.

**Emory Creek, Ruby/Garnet Creek and American Creek, Hope Projects**

These power sites are located near Hope, British Columbia and they have a combined capacity of 38 MW and potential annual average electricity generation of 130 GWh.

**5. EQUIPMENT**

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>June 30, 2007 Net Book Value</b>	<b>December 31, 2006 Net Book Value</b>
Computer equipment	48,501	11,542	<b>36,959</b>	18,182
Office equipment	82,937	6,863	<b>76,074</b>	17,462
	<b>\$ 131,438</b>	<b>\$ 18,405</b>	<b>\$ 113,033</b>	<b>\$ 35,644</b>

**6. RELATED PARTY TRANSACTIONS**

A minor portion of the Company’s administrative operations is performed by a private company owned by the President of the Company. This related private company charged fees of \$14,773 and \$27,122 (2006 - \$41,612 and \$73,726) for these services for the three and six months ended June 30, 2007 respectively and was owed \$13,678 (December 31, 2006 - \$64,001) at June 30, 2007. The amounts owed to this related company are non-interest bearing.

For the three and six months ended June 30, 2007, the Company paid or accrued \$179,083 and \$281,871 respectively in legal fees to a law firm, of which a partner is the corporate secretary of the Company. This law firm was owed \$64,629 (December 31, 2006 - \$21,183) at June 30, 2007.

**PLUTONIC POWER CORPORATION**  
**Notes to the Interim Consolidated Financial Statements**  
June 30, 2007  
(unaudited)

**7. SHARE CAPITAL**

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</b>	<b>Number of Shares</b>	<b>Amount</b>
<b>Balance, December 31, 2005</b>	<b>12,684,982</b>	<b>4,001,939</b>
Issued for cash from private placement	13,100,000	22,480,000
Share issue costs	-	(1,646,185)
Issued for cash on exercise of warrants	4,235,020	2,701,800
Issued for cash from exercise of options	435,000	192,400
Transfer from contributed surplus on exercise of vested options	-	143,700
<b>Balance, December 31, 2006</b>	<b>30,455,002</b>	<b>\$ 27,873,654</b>
Share issue costs	-	(2,088,036)
Issued for cash on exercise of warrants	1,476,703	1,896,375
Issued for cash from exercise of options	298,500	289,400
Issued for cash from private placement	7,100,000	32,305,000
Issued per terms of a termination agreement	250,000	1,162,500
Transfer from contributed surplus on exercise of vested options	-	238,352
Transfer from contributed surplus on exercise of vested warrants	-	46,254
<b>Balance, June 30, 2007</b>	<b>39,580,205</b>	<b>\$ 61,723,499</b>

During the quarter ended June 30, 2007, the Company closed a \$32,305,000 bought deal private placement equity financing co-led by Orion Securities Inc. and Cormark Securities Inc. and including Scotia Capital Inc. and Toll Cross Securities Inc. and sold 7,100,000 common shares of the Company at \$4.55 per common share. The Company received \$30,467,059 net of the underwriters commission of \$1,776,775 (5.5% on gross cash proceeds) and legal fees of \$61,166.

In May 2007, the Company issued 250,000 common shares warrants to purchase 125,000 common shares at \$4.65 per common share exercisable for a two year period, to a consultant as part of the termination of a consulting agreement. The warrants are valued using a risk-free rate of 4%, an expected life of one year, expected volatility of 63% and expected dividend yield of nil.

During the quarter ended June 30, 2007, 304,875 of the issued common shares of the Company that were subject to escrow restrictions were released. As at June 30, 2007, there were no remaining common shares that were subject to escrow restrictions.

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 dated May 3, 2004 and amended on May 16, 2006. The Company had reserved 3,640,996 common shares for issue under this incentive stock option plan. As of November 14, 2006, the Company had granted the entire amount available under this plan. In May 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.

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**7. SHARE CAPITAL (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. A number of options vest at the rate of 25% on the date of the grant and 25% every six months thereafter and the remaining options vest 1/3 every year at the end of each year completed year from the date of grant. Options expire no later than five years from the grant date, except that they expire within 90 days when the holder is no longer qualified to hold the option (other than for cause, when the option expires immediately). A summary of stock option activity at June 30, 2007 is as follows:

	Options granted	Weighted Average Exercise Price
<b>Balance, December 31, 2005</b>	<b>2,180,750</b>	<b>\$0.46</b>
Options granted – approved	1,610,246	\$1.49
Options granted – subject to shareholder approval*	156,504	\$2.66
Options exercised	(435,000)	\$0.44
<b>Balance, December 31, 2006</b>	<b>3,512,500</b>	<b>\$1.03</b>
Options granted – approved	2,540,000	\$4.62
Options cancelled	(365,000)	\$4.04
Options exercised	(298,500)	\$0.97
<b>Balance, June 30, 2007</b>	<b>5,389,000</b>	<b>\$2.52</b>

\* Shareholder approval obtained in May 2007

Of the total 365,000 options cancelled 25,000 stock options were originally granted November 14, 2006, 15,000 stock options were originally granted December 18, 2006 and 325,000 stock options were originally granted March 28, 2007.

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**7. SHARE CAPITAL (continued)**

The following table summarizes information concerning outstanding and exercisable options at June 30, 2007:

Grant date	Expiry date	Number Outstanding	Weighted Average Exercise price	Weighted Remaining Contractual life (in years)	Number Vested and Exercisable	Weighted Average Exercise price
8-Sep-03	8-Sep-08	566,250	\$0.20	1.19	566,250	\$0.20
17-May-04	17-May-09	349,500	\$0.32	1.88	349,500	\$0.32
23-Nov-04	24-Nov-09	463,000	\$0.75	2.41	463,000	\$0.75
1-Sep-05	2-Sep-10	150,000	\$0.80	3.18	150,000	\$0.80
27-Mar-06	27-Mar-11	160,000	\$0.80	3.74	120,000	\$0.80
27-Mar-06	28-Mar-11	300,000	\$0.80	3.75	300,000	\$0.80
7-Jun-06	7-Jun-11	541,750	\$1.65	3.94	406,313	\$1.65
10-Jul-06	10-Jul-11	290,000	\$1.63	4.03	145,000	\$1.63
25-Jul-06	25-Jul-11	200,000	\$2.12	4.07	100,000	\$2.12
14-Nov-06	14-Nov-11	48,500	\$2.10	4.38	24,250	\$2.10
18-Dec-06	18-Dec-11	105,000	\$2.80	4.47	52,500	\$2.80
17-Jan-07	17-Jan-12	30,000	\$2.95	4.55	7,500	\$2.95
27-Mar-07	27-Mar-12	350,000	\$4.20	4.75	87,500	\$4.20
28-Mar-07	28-Mar-12	1,355,000	\$4.25	4.75	338,750	\$4.25
20-Apr-07	19-Apr-12	230,000	\$5.28	4.81	57,500	\$5.28
14-May-07	13-May-12	100,000	\$7.28	4.87	25,000	\$7.28
22-May-07	21-May-12	150,000	\$7.30	4.90	37,500	\$7.30
		5,389,000	\$2.60	3.71	3,230,563	\$1.53

Subsequent to June 30, 2007, the Company issued 37,000 common shares pursuant to the exercise of stock options for cash proceeds of \$73,930.

The weighted average grant-date fair value of stock options granted during both the three and six months ended June 30, 2007 was \$4.59.

The Company determines the fair value of the options granted using a Black-Scholes option pricing model, recognizing forfeitures as they occur, using the following weighted average assumptions:

Risk-free interest rate	3.9% to 4.0%
Expected life (years)	2.5
Expected volatility	63% to 80%
Expected dividend yield	Nil

The following table summarizes information concerning warrants outstanding at June 30, 2007:

Number of Shares	Price Per Share	Expiry Date	Issue Date
46,875	\$1.75	Until March 29, 2008	March 28, 2006
1,830,000	\$2.50	Until August 29, 2008	August 30, 2006
431,423	\$2.00	Until November 9, 2008	November 9, 2006
125,000	\$4.65	Until May 14, 2009	May 14, 2007
<b>2,433,298</b>			

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**7. SHARE CAPITAL (continued)**

Subsequent to June 30, 2007, the Company issued 24,938 common shares pursuant to the exercise of warrants for cash proceeds of \$49,876.

The Company will issue to GE 650,000 two year common share purchase warrants with an exercise price to be determined upon closing of the Toba Montrose General Partnership agreement. For more information, refer to the Power Project section above.

**8. CONTRIBUTED SURPLUS**

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

<b>Balance, December 31, 2005</b>	<b>\$ 566,140</b>
Share-based compensation expense	446,994
Fair value of options and warrants issued for power project financing	1,220,730
Fair value of compensation warrants issued for equity financing	160,597
Transfer to share capital on exercise of vested options	(143,700)
<b>Balance, December 31, 2006</b>	<b>2,250,761</b>
Share-based compensation expense	2,243,121
Fair value of options granted to Consultants	71,825
Fair value of options capitalized to power project costs	2,252,021
Fair value of compensation warrants issued for equity financing	182,044
Fair value of options and warrants issued for power project financing	1,519,870
Transfer to share capital on exercise of vested options	(238,352)
Transfer to share capital on exercise of warrants	(46,254)
<b>Balance, June 30, 2007</b>	<b>\$ 8,235,036</b>

**9. SHORT TERM LOANS**

As at June 30, 2007, the outstanding short term loan plus accrued interest outstanding to GE was \$2,742,466, with \$74,795 and \$148,767 of interest capitalized to power projects development costs during for the three and six months ended June 30, 2007 respectively.

In August 2006, GE provided the Company with \$2,500,000 in credit support to partly finance the issuance of \$12,660,000 in performance bonds as part of the EPA requirement for the East Toba/Montrose and Rainy River power projects. The annual interest rate is 10% for the first 60-day period and 12% thereafter.

GE was also issued 375,000 share purchase warrants. Each share purchase warrant entitles GE to purchase one common share of the Company at a price of \$2.50 per common share until August 28, 2008. The fair value of the warrants was calculated using a risk-free rate of 4%, an expected life of one year, expected volatility of 81% and expected dividend yield of nil. The Company does

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**9. SHORT TERM LOANS (continued)**

not earn interest on the \$2.5 million portion of the performance bond which is supported by the GE letter of credit.

**10. INCOME TAXES**

As of June 30, 2007, a future income tax asset was not recognized. The Company has unrecognized non-capital losses for income tax purposes of approximately \$12 million as of December 31, 2006 that may be used to offset future taxable income. At this time, the Company has assessed that it is not more than likely that the tax loss carryforward will be realized. These losses, if not utilized, will expire from 2007 to 2026.