



**THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2010**

**Management's Discussion & Analysis**

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## **INTRODUCTION**

This Management's Discussion and Analysis ("MD&A") includes financial information from, and should be read in conjunction with, the unaudited Interim Consolidated Financial Statements of Plutonic Power Corporation (the "Company") for the three and six month periods ended June 30, 2010 and 2009. The Company reports its financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles ("GAAP") in Canadian dollars. This MD&A was prepared with information available as of August 9, 2010. Additional information and disclosure relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com)

## **FORWARD-LOOKING STATEMENTS**

Certain statements contained in this MD&A constitute forward-looking statements. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "designed", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements. Based on current available information, the Company believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that those expectations will prove to be correct. The forward-looking statements in this MD&A are expressly qualified by this statement, and readers are advised not to place undue reliance on the forward-looking statements.

## **OVERVIEW**

Plutonic Power Corporation and all of its wholly and partially owned subsidiary companies are incorporated in the Province of British Columbia ("BC"), Canada. The Company is a reporting issuer in all the Provinces of Canada, except Quebec, and its common shares trade on the Toronto Stock Exchange ("TSX") under the symbol PCC. The Company's principal business activities are the identification, development, construction and ultimately, the operation of clean power projects.

The Company in partnership with GE Energy Financial Services ("GE") has the following:

- Two run-of-river hydro-electric projects, the East Toba River and Montrose Creek ("Toba Montrose") in BC under commissioning, with an expected long-term average net annual generation of 715,000 megawatt hours ("MWh") of electricity. TMGP received confirmation from BC Hydro and Power Authority ("BC Hydro") that Toba Montrose has met its guaranteed commercial operations date ("COD") commitment under a 35 year Electricity Purchase Agreement ("EPA"). TMGP began selling electricity generated by the East Toba River generation facility during the second quarter of 2010, and by the Montrose Creek generation facility early in the third quarter of 2010. Both facilities are now operating at full capacity while their commissioning continues. Electricity sales (net of Peter Kiewit Sons Co. early revenue bonus) are recorded against Property, Plant and Equipment until the generation facilities are substantially complete. This is expected by the end of the third quarter of 2010.
- One wind energy site in BC, known as the 'Dokie Wind Project', under construction with an expected long-term average generation of 340,000 MWh of electricity annually. Completion of construction and commencement of electricity sale to BC Hydro is scheduled in early 2011 under a 25 year EPA. In addition to this, a feasibility study is currently underway on a potential expansion of the original wind site.

- One recently signed 40 year Electricity Purchase Agreement (“EPA”) for the Upper Toba Valley Project that includes two Power Sites with a combined expected long-term average annual generation of 315,000 MWh of electricity net of transmission line losses.

The Company has a portfolio of 39 other Power Sites at various stages of evaluation, permitting and development with a total potential to generate approximately 5,200,000 MWh of electricity annually. The majority of these Power Sites are located in the Green Power Corridor™, an area in southwest coastal BC, which includes drainages flowing into the Toba, Bute and Knight Inlets. The Company is focused on a growth and development path to become a leading supplier of clean electricity that may include projects outside of BC in the future.

## **OUTLOOK**

The outlook for the clean energy sector in BC remains strong. In 2009, the BC Provincial Government announced the establishment of a Green Energy Advisory Task Force, as committed in its August 2008 throne speech, and a new Cabinet Committee on Climate Action and Clean Energy to help advance the Province’s climate action goals to reduce greenhouse gas emissions and build a greener economy that generates well paying jobs while maintaining high environmental standards for the permitting process and the operational phase of any project that gets built.

In February 2010, the BC Provincial Government tabled a new agenda in its throne speech that focused on six long-term priorities, including maximizing BC’s potential as a clean energy powerhouse and becoming a global leader in climate action. Building on the contributions of the Green Energy Advisory Task Force, the BC Provincial Government launched a comprehensive strategy to put BC at the forefront of clean energy development and announced it would legislate a new Clean Energy Act that would encourage new investments in independent power production while also strengthening BC Hydro. It would provide for fair, predictable clean power calls, simplified procurement protocols and new measures to encourage investment and the jobs that flow with it.

In April 2010, the BC Provincial Government announced its new Clean Energy Act, which establishes a long-term vision for BC to become a clean-energy powerhouse. It sets 16 specific energy objectives, including expediting clean energy investments, strengthening environmental protection and aggressively promoting regional job creation and First Nations’ involvement in clean electricity development opportunities. These objectives will guide the BC Government, BC Hydro and the BC Utilities Commission in advancing BC’s energy vision which focuses on three areas, which are ensuring Electricity Self-Sufficiency at low rates, harnessing BC’s Clean-Power Potential to create jobs in every region of BC and strengthening Environmental Stewardship and Reducing Greenhouse Gases.

In 2008, the Company and GE signed a memorandum of understanding (“MOU”) to jointly submit the Upper Toba Valley and Bute Inlet Power Projects into the BC Hydro 2008 Request for Proposals (“BC Hydro 2008 RFP”). BC Hydro issued its BC Hydro 2008 RFP on June 11, 2008 for 5,000,000 MWh per year of seasonal and hourly firm energy to help ensure that the Province of BC has sufficient electricity to meet its electricity needs by 2016. In the same year, the Company and GE jointly submitted these two bids into the BC Hydro 2008 RFP.

In March 2010, BC Hydro offered a 40 year EPA for a modified Upper Toba Valley Project that now includes two Power Sites with a combined expected long-term average annual generation of 315,000 MWh of electricity. The original proposal included a third Power Site, which was removed during discussions with BC Hydro because of concerns about capacity constraints on a BC Transmission Corporation (“BCTC”) transmission line between Saltery Bay and Malaspina. On April 28, 2010, the Company and GE entered into an EPA with BC Hydro for the modified Upper Toba Valley Project.

Work on the Upper Toba Valley Project during 2010 will focus on the entering into of a formal partnership agreement with GE, an Impact Benefit Agreement (“IBA”) with the Klahoose First Nation, and construction, permitting and financing arrangements.

Negotiations with BC Hydro for an EPA on the Bute Inlet Project were discontinued in order to allow for further data collection, studies, due diligence and market assessment. The Company remains committed to the development of this project, and will continue with cost-effective work necessary to advance the project in a manner consistent with the high standards set by Government.

During the third quarter of 2010 the Company expects to begin recording operating revenues from the Toba Montrose facility. This will mark the final transition of the Company from a developer to that of a clean power generator.

Construction of the Dokie Wind Project is expected to be completed in late 2010 with commissioning and testing anticipated to be completed in early 2011. The Company and GE have commenced a feasibility study to increase the capacity of the Dokie Wind Project, called the Dokie Wind Expansion Project.

While Toba Montrose is expected to be fully operational during the third quarter of 2010 and is expected to generate positive cash flow and the Dokie Wind Project is also expected to generate positive cash flow once it is online in late 2010 or early 2011, the amount and timing of distributable cash flow to the Company from each of TMGP and DGP has yet to be determined. As such, during the next twelve months, the Company will need to raise additional working capital. The amount required will be dependent on the timing and advancement of the outcome of optimization and review work currently underway at both the Upper Toba Valley Project and the potential Dokie Wind Expansion Project. As well, further funds may be required for the continued development of the Company’s other power projects and its 40% share of TMGP’s construction cost contingency.

The Company has assembled, and continues to add to as required, a team of qualified and experienced professionals and support staff to develop, construct, and operate its current and future power projects.

## **PROJECT UPDATES**

### **Toba Montrose under Construction**

In 2007, the Company and GE formed the Toba Montrose General Partnership (“TMGP”), a general partnership formed under the laws of the Province of BC, to own, finance, build and operate Toba Montrose in conjunction with our First Nations partners, the Klahoose, the Sliammon and the Sechelt First Nations. The Company and GE made their initial respective partner’s contributions, arranged the required project debt financing and guarantees which totalled approximately \$660 million, and began construction of Toba Montrose under the terms of TMGP’s Engineering, Procurement and Construction (“EPC”) contract with its contractor Peter Kiewit Sons Co. (“Kiewit”). Toba Montrose has a combined expected long-term annual average generation and sale of 715,000 MWh of electricity net of transmission line losses to BC Hydro under a 35 year EPA.

In 2009, the Company contributed an additional \$30 million of equity in TMGP, primarily to fund an increase in capacity of the 230 kilovolt (“KV”) transmission line to be built from the two generation facilities to the new BCTC substation at Saltery Bay. Subject to a priority use agreement with TMGP, the Company has the right to use the excess and unused capacity of the TMGP transmission line for its Upper Toba Valley Power Sites.

In 2009, TMGP and the Government of Canada signed an agreement under the ecoEnergy for Renewable Power program that provides incentive funding to increase Canada's supply of clean electricity from renewable sources, including low-impact hydro projects such as Toba Montrose. Upon commencement of commercial operations for Toba Montrose, TMGP will be entitled to receive up to \$72.7 million in funding under the ecoEnergy program during its first ten years of operations based on \$10 per megawatt-hour of electricity generated by Toba Montrose and sold to BC Hydro.

As at June 30, 2010, Kiewit had completed 97% of the contracted work under the EPC contract. The completed work includes construction of the transmission line for the project, completion of the East Toba River facility, and the Montrose Creek penstock and intake. Ongoing work includes final commissioning of both the East Toba River and the Montrose Creek facilities.

In early August 2010, TMGP received confirmation from BC Hydro that Toba Montrose has met its guaranteed commercial operations date ("COD") commitment under a 35 year Electricity Purchase Agreement ("EPA"). TMGP began selling electricity generated by the East Toba River generation facility during the second quarter of 2010, and by the Montrose Creek generation facility early in the third quarter of 2010. Both facilities are now operating at full capacity while their commissioning continues.

The operation of the two facilities remains under the control of Kiewit which has constructed the project under a fixed price construction contract. Until the generation facilities are substantially complete net revenues (net of Kiewit's early revenue bonus) from power sales will be credited to Property Plant and Equipment. Substantial completion is expected in the third quarter of 2010 when all performance tests are complete and responsibility for operation of the Toba Montrose facilities is handed over to TMGP. Revenue will then be recorded in the Statement of Operations. Toba Montrose is currently under budget and ahead of schedule.

Currently, approximately 25% of the workforce on site is from local communities and First Nations. First Nations are involved in a range of contracting opportunities, including camp services and transportation services.

The Company holds a 51% non-participating and voting interest and a 40% economic interest in TMGP. After 35 years of operations, the Company's economic interest in TMGP will increase from 40% to 51% for no additional consideration. The Company accounts for its investment in TMGP using the proportionate consolidation method of accounting whereby the Company records its 40% share of TMGP assets, liabilities, revenues and expenses.

The obligations of TMGP, except for the Company's proportionate share of the contingent equity and debt service reserve guaranteed by a GE \$28 million letter of credit, are non-recourse to the Company.

### **Dokie Wind Project under Construction**

In 2009, the Company and GE formed Dokie General Partnership ("DGP"), a general partnership formed under the laws of the Province of BC, to acquire, finance, complete the construction of and operate the Dokie Wind Project in conjunction with its First Nations partners, the Halfway River, West Moberly and Sauteau First Nations and McLeod Lake Indian Band. The Dokie Wind Project is located 1,100 km northeast of Vancouver, near Chetwynd, BC and it will use 48 Vestas V90 wind turbines and is expected to generate a long-term average of 340,000 MWh of electricity annually net of transmission line losses with completion of construction and commencement of electricity sale to BC Hydro scheduled for early 2011 under a 25 year EPA. Upon completion, the Dokie Wind Project will be the largest wind farm in British Columbia.

DGP acquired certain assets related to the Dokie Wind Project from EarthFirst Canada Inc. and third parties. The Company and GE made their respective partner's contributions totalling \$52.5 million, of which the Company's 51% proportionate contribution was \$26.8 million, and DGP arranged the required remaining \$175 million of project debt financing to fund the completion of construction. DGP entered into an EPC contract with its contractor, Mortenson Canada Corporation ("Mortenson") to complete construction of the Dokie Wind Project with scheduled completion in early 2011.

DGP and the Government of Canada signed an agreement under the ecoEnergy for Renewable Power program. Upon commencement of commercial operations for the Dokie Wind Project, DGP will be entitled to receive up to \$33.3 million in funding under the ecoEnergy program during its first ten years of operations based on \$10 per megawatt-hour of electricity generated by the Dokie Wind Project and sold to BC Hydro.

Mortenson mobilized to site in early January 2010 to commence the balance of construction on the Dokie Wind Project. Deliveries of the remaining 40 turbines have been completed to a lay down area in Chetwynd, all site roads have been completed and as of June 15, 2010, Mortenson had completed all wind turbine foundations. Turbine erection for the remaining 43 units commenced on June 28, 2010 and this will be the primary site activity over the next 3 months. Work progresses on the substation construction and the 234 KV transmission line and 35 KV collector lines for completion in the fourth quarter of 2010. Support from the community has been very positive and construction activity continues to advance in conformance with the master project plan.

The Company and GE hold respectively a 51% and 49% interest in DGP. The Company accounts for its investment in DGP using the proportionate consolidation method of accounting whereby the Company records its 51% share of DGP assets, liabilities, revenues and expenses. The obligations of DGP are non-recourse to the Company.

### **Upper Toba Valley Project**

During 2006, the Company applied for and had applications for water licences 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 three Power Sites. The Company then submitted the Upper Toba Valley Project to the BC Environmental Assessment Office ("EAO") for the construction of three run-of-river generation facilities, to be located on Dalgleish Creek, Jimmie Creek and the Upper Toba River.

The Company and GE jointly bid the Upper Toba Valley Project into the BC Hydro 2008 RFP in November 2008.

During 2009, the Company was granted a BC Provincial Environmental Assessment Certificate for the Upper Toba Valley Project. In December 2009, the Canadian Federal Government completed its screening level review under the Canadian Environmental Assessment Act, enabling the federal agencies to proceed with the permitting of the Upper Toba Valley Project.

In March 2010, BC Hydro offered the Company and GE an EPA for a modified Upper Toba Valley Project. The Company and GE modified the Upper Toba Valley Project to include two Power Sites with a combined expected annual electricity generation of 315,000 MWh net of transmission line losses. This represents a modification from the original bid of 3 Power Sites. The Dalgleish Power Site was removed from the Company and GE's bid during discussions with BC Hydro to address capacity constraints identified by BCTC on their transmission line between SALTERY Bay and Malaspina. The Dalgleish Power Site remains a viable project should the BCTC transmission line constraints between

Saltery Bay and Malaspina be removed in the future. On April 28, 2010, the Company and GE entered into a 40 year EPA with BC Hydro for the modified Upper Toba Valley Project. With the change in size of the Upper Toba Valley Project, the Company and GE are now in discussions on how to proceed with their MOU for the development and construction of the Upper Toba Valley Project.

The Company has IBAs with the Sliammon and Sechelt First Nations that cover approval for the Upper Toba Valley Project and is in negotiations on an IBA with the Klahoose First Nation.

### **Dokie Wind Expansion Project**

The Company and GE acquired the rights to expand the Dokie Wind Project currently under construction and with an EPA with BC Hydro. The Dokie Wind Expansion Project is subject to feasibility confirmation and a successful EPA negotiation with BC Hydro. The Company and GE's interest in these rights are 51% and 49% respectively. The Company and GE are currently studying the Dokie Wind Expansion Project, including wind assessment, turbine layout and infrastructure and financial verifications. These studies will continue into 2011.

Following completion of a positive feasibility study, it would be necessary for the Company and GE to negotiate an EPA with BC Hydro, however this can be accomplished outside of BC Hydro power call processes.

### **Bute Inlet Project**

The Bute Inlet Project consists of 17 Power Sites, with an estimated combined potential annual electricity generation of approximately 2,900,000 MWh. Eight of these 17 Power Sites were added during 2007 and one was added during 2008. From 2003 through 2008, the Company applied for and had applications for water licences and Crown Land tenure accepted by MOE and ILMB for the Bute Inlet Power Sites.

The Company and GE jointly bid the Bute Inlet Project into the BC Hydro 2008 RFP in November 2008. The Bute Inlet Project proposal submitted to the BC EAO, the Canadian Environmental Assessment Agency and the Major Projects Management Office was for the construction of 17 run-of-river generating facilities, organized into three interconnected groups. Seven of the facilities are located in or near the Homathko River system, seven in the Southgate River system and three in the Orford River system.

In March 2010, the Company and GE jointly announced negotiations with BC Hydro for an EPA on the Bute Inlet Project would not move ahead at that time in order to allow for further data collection, studies, due diligence and market assessment.

The Company remains committed to the development of this project and will continue with cost-effective work necessary to advance this project in a manner consistent with the high standards set by Governments.

### **Other Projects**

The Company has 22 other Power Sites, with a combined potential annual electricity generation of approximately 2,300,000 MWh. These Power Sites are located primarily in the southwestern region of BC. The Company continues to collect hydrological data, conduct engineering work and perform other required studies on these Power Sites.

During 2009, the Company applied for licences for a 1,000 MW pumped storage site in B.C. Acceptance of the license application is pending.

## **RESULTS OF OPERATIONS**

### **Three months ended June 30, 2010, compared to the three months ended June 30, 2009**

The Company recorded a net loss of \$1,822,994 for the quarter ended June 30, 2010 (\$0.03 loss per common share) compared to a net loss of \$2,148,508 (\$0.05 loss per common share) in the same period in 2009, a decrease in net loss of \$325,514, as explained in the following paragraphs.

During the three months ended June 30, 2010, the Company recorded its share of TMGP's realized loss on interest rate swap contracts of \$425,895 and an unrealized gain on the fair value adjustment of interest rate swap contracts of \$844,277 compared to a realized loss of \$280,593 and an unrealized gain of \$750,880 respectively in the same period in 2009.

During the three months ended June 30, 2010, the Company recorded an unrealized loss of \$1,634,977 in other comprehensive income, representing its share of TMGP's effective portion of the change in fair value of the interest rate swap designated as a hedge. The unrealized losses and gains on the fair value adjustment of the interest rate swap contracts are non-cash items.

Share-based compensation expense, a non-cash item, is recorded over the vesting period of the stock options that have been granted. This expense was \$290,793 in the second quarter of 2010 compared to \$370,990 in the same period in 2009, a decrease of \$80,197. This reduction was due to a number of option forfeitures during the quarter.

Salaries expense was \$569,172 in the second quarter of 2010 compared to \$753,604 in the same period in 2009, a decrease of \$184,432. The reduction is due in part to the reversal of an accrual of bonuses of \$310,505 due to a change in the bonus plan in the second quarter of 2010, offset by a general increase in employee numbers and salaries from the same quarter of 2009.

The Company did not expense any guarantee fees during the second quarter of 2010, while it expensed \$372,258 in guarantee fees during the second quarter of 2009. The guarantee fees for 2009 are comprised of \$147,258 in amortization of the fair value of the 650,000 warrants issued by the Company to GE in 2007 and \$225,000 in cash payments related to the 3% annual cash fee paid to GE for the \$30 million letter of credit GE had posted on behalf of the Company to TMGP lenders. The letter of credit provided by GE guaranteed the \$30 million equity contribution the Company was required to make to TMGP no later than November 1, 2010. The Company made its \$30 million contribution and as such incurred its last guarantee fee expense in November 2009.

During the second quarter of 2010, the Company expensed \$17,701 on project evaluation costs compared to \$323,649 in the same period in 2009. The Company incurs expenditures in evaluating potential projects. If, due to these evaluations, the Company deems a new project technically and economically feasible and intends to develop the project, it will then begin to capitalize development costs related to the project, upon receipt of an associated water license. The reduction in costs in the second quarter of 2010 is due to the Company's primary focus on Toba Montrose and Dokie projects, therefore costs to support the Company's expanded development and growth activities related to other power projects under development had decreased.

All other costs incurred during the second quarter of 2010 remained consistent with the costs from the second quarter of 2009.

Interest income was \$8,533 in the second quarter of 2010 compared to \$22,493 in the same period in 2009, a decrease of \$13,960 due to lower interest rates on lower average cash balances on hand.

During the second quarter of 2010 the Company earned dividend income of \$64,956 compared to nil in the same period in 2009 from its investment in AltaGas units that converted from non-participating special warrants to participating units on January 1, 2010. The Company sold its investment in AltaGas in June 2010 for cash proceeds of \$3,065,131 (net of commission fees of \$27,114), recording a realized loss on the disposal of the investment of \$549,516 in the quarter.

Excluding its proportionate share of Toba Montrose and the Dokie Wind Project expenditures, during the second quarter of 2010, the Company capitalized \$690,544 of costs associated with its Power Sites for on-going engineering and hydrological work, meeting regulatory and permitting requirements, and First Nations, community and other stakeholder consultations.

### **Six months ended June 30, 2010, compared to the six months ended June 30, 2009**

The Company recorded a net loss of \$3,927,277 for the six months ended June 30, 2010 (\$0.06 loss per common share) compared to a net loss of \$13,475,685 (\$0.30 loss per common share) in the same period in 2009, a reduction in net loss of \$9,548,408, as explained in the following paragraphs.

During the six month period ended June 30, 2010, the Company recorded its share of TMGP's realized loss on interest rate swap contracts of \$828,635 and an unrealized gain on the fair value adjustment of interest rate swap contracts of \$1,477,170 compared to a realized loss of \$472,297 and unrealized loss of \$8,036,911, respectively, in the same period in 2009.

During the six months ended June 30, 2010, the Company recorded an unrealized loss of \$4,248,045 in other comprehensive income, representing its share of TMGP's effective portion of the change in fair value of the interest rate swap designated as a hedge. The unrealized losses and gains on the fair value adjustment of the interest rate swap contracts are non-cash items.

In November 2007, TMGP entered into two interest rate swap contracts related to its \$100 million floating rate credit facility to be drawn during the approximately three year construction period and to be repaid during the operating term of 35 years. During 2008, TMGP designated the long dated interest rate swap as a cash flow hedge. In March 2009, GE and the Company agreed to a change in the relative responsibility of the partners for the change in fair value of the two interest rate swap contracts in the case of a termination prior to their maturity by way of an amendment to the TMGP Partnership Agreement. The impact to the Company under the terms of the amended TMGP partnership agreement is described in the following paragraphs:

- For the short dated interest rate swap contract, which expires in November 2010, the Company is solely liable for any gains or losses in the event of an early termination of the contract. This results in the Company being allocated 100% of the unrealized gains and losses from the change in fair value of the short dated interest rate swap contract until its expiry. As a result of amending the Partnership agreement, the Company recorded a one time adjustment of \$3.3 million in March 2009 for the resulting increase in the interest rate swap contract liability and unrealized losses in the statement of operations.
- For the long dated interest rate swap contract, which expires in June 2045, the Company is liable for 100% of the first \$13.0 million of any gains or losses in the event of an early termination of the contract. Any gains or losses resulting from the early termination of the contract in excess of \$13.0 million would be allocated 60% to GE and 40% to the Company.

This results in the Company being allocated 100% of the unrealized gains and losses from the change in fair value of the long dated interest rate swap contract from the inception of the long dated interest rate swap up to a maximum of \$13.0 million and 40% of the unrealized gains and losses in excess of \$13.0 million. As a result the Company recorded a one time adjustment in March 2009 for the resulting increase in the interest rate swap contract liability of \$7.8 million, unrealized losses in the statement of operations of \$5.7 million, and other comprehensive loss of \$2.1 million.

- Gains or losses realized by TMGP through normal monthly or quarterly settlements continue to be allocated 60% to GE and 40% to the Company.

Share-based compensation expense, a non-cash item, is recorded over the vesting period of the stock options that have been granted. This expense was \$877,908 in the first six months of 2010 compared to \$565,116 in the same period in 2009, an increase of \$312,792. A higher number of options vested in 2010 compared to 2009 and the average grant date fair value of the options granted increased from \$1.04 in the first six months of 2009 to \$1.68 in the first six months of 2010.

Salaries expense was \$1,800,407 in the first six months of 2010 compared to \$1,489,716 in the same period in 2009, an increase of \$310,691. Increases in employee salaries and the number of employees contributed to the increase in salaries expense.

The Company did not expense any guarantee fees during the first six months of 2010 while it expensed \$744,517 in guarantee fees during the first six months in 2009. The guarantee fees for 2009 are comprised of \$294,517 in amortization of the fair value of the 650,000 warrants issued by the Company to GE in 2007 and \$450,000 in cash payments related to the 3% annual cash fee paid to GE for the \$30 million letter of credit GE had posted on behalf of the Company to TMGP lenders. The letter of credit provided by GE guaranteed the \$30 million equity contribution the Company was required to make to TMGP no later than November 1, 2010. The Company made its \$30 million contribution and as such incurred its last guarantee fee expense in November 2009.

During the first six months of 2010, the Company expensed \$42,374 on project evaluation costs compared to \$387,143 in the same period in 2009. The Company incurs expenditures in evaluating potential projects. If, due to these evaluations, the Company deems a new project technically and economically feasible and intends to develop the project, it will then begin to capitalize development costs related to the project, upon receipt of an associated water license.

Consulting fees, professional fees, office costs, rent, transfer agent and listing fees and travel and promotion were \$1,452,013 in the first six months of 2010 compared to \$1,805,158 in the same period in 2009, a reduction of \$353,145. The reduction in both these costs and project evaluation costs in 2010 is due to the Company's primary focus on Toba Montrose and Dokie projects, therefore costs to support the Company's expanded development and growth activities related to other power projects under development had decreased.

During the first six months of 2010, the Company did not write-off any power project development costs compared to \$34,900 in the same period in 2009. When project development costs no longer meet the criteria for deferral, the costs are expensed. See Critical Accounting Estimates section for details on power project development cost criteria.

Interest income was \$20,202 in the first six months of 2010 compared to \$90,522 in the same period in 2009, a decrease of \$70,320 due to lower interest rates and lower average cash balances on hand.

During the first six months of 2010, the Company earned dividend income of \$162,390 compared to nil in the same period in 2009 from its investment in AltaGas units that converted from non participating special warrants to participating units on January 1, 2010. The Company sold its investment in AltaGas in June 2010 for cash proceeds of \$3,065,131 (net of commission fees of \$27,114) recording a realized loss on investment of \$549,516 in the six months ended June 30, 2010.

Excluding Toba Montrose and Dokie expenditures, during the first six months of 2010, the Company incurred and capitalized \$1,431,815 of costs associated with its Power Sites for on-going engineering and hydrological work, meeting regulatory and permitting requirements, as well as First Nations, community and other stakeholder consultations.

## SUMMARY OF QUARTERLY RESULTS

The following table summarizes information regarding the Company's operations on a quarterly basis for the last eight quarters. The following financial information has been prepared in accordance with Canadian GAAP and is reported in Canadian dollars.

Quarter Ended	Revenue	Loss	Loss Per common Share	Loss Per Diluted Common Share
30-June-10	\$ -	\$1,822,994	\$0.03	\$0.03
31-Mar-10	-	2,104,283	0.03	0.03
31-Dec-09	-	3,105,114	0.05	0.05
30-Sep-09	-	2,687,812	0.06	0.06
30-Jun-09	-	2,148,508	0.05	0.05
31-Mar-09	-	11,327,177	0.26	0.26
31-Dec-08	-	5,244,182	0.12	0.12
30-Sep-08	-	2,977,283	0.07	0.07

To reflect the amendment to the TMGP Partnership Agreement made in March 2009, the Company recorded a one-time adjustment in the first quarter of 2009 and increased its share of the unrealized loss on interest rate swap contracts in the statement of operations by \$9.0 million.

The Company expects to begin recording operating revenues during the third quarter of 2010.

## LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2010, the Company had \$8,479,825 in cash (December 31, 2009 - \$11,924,303), its proportionate interest in TMGP's cash was \$1,051,140 (December 31, 2009 - \$1,778,234), and its proportionate interest in DGP's cash was \$3,497,003 (December 31, 2009 - \$701,383) for a consolidated cash balance of \$13,027,968 (December 31, 2009 - \$14,403,920). At June 30, 2010, the Company's proportionate interest in TMGP's restricted cash was \$972,918 (December 31, 2009 - \$3,632,819) and its proportionate interest in DGP's restricted cash was \$33,069,696 (December 31, 2009 - \$48,230,833) for a consolidated restricted cash balance of \$34,042,614 (December 31, 2009 - \$51,863,652).

At June 30, 2010, the Company had consolidated working capital of \$32,858,666 compared to consolidated working capital of \$57,489,794 at December 31, 2009, a decrease of \$24,631,128. Excluding TMGP and DGP, the Company's working capital was \$8,506,126 at June 30, 2010 compared to \$13,395,163 at December 31, 2009, a decrease in working capital of \$4,889,037.

Excluding TMGP and DGP, this working capital decrease in the three and six month periods ended June 30, 2010 is a result of \$0.7 million and \$1.4 million respectively spent on power project development costs, \$1.4 million and \$3.0 million respectively spent on net administrative costs, and the loss on disposal of available-for-sale investments of \$0.2 million and \$0.5 million, respectively. The expenditures were funded from working capital. Excluding TMGP and DGP, the Company's major expenditures during the three and six month comparative period in 2009 included \$4.5 million and \$7.9 million respectively on power project development costs and \$2.7 million and \$4.8 million, respectively in net administrative costs.

The Company's consolidated working capital, which includes its proportionate share of TMGP's and DGP's working capital, will fluctuate depending on the timing of TMGP's and DGP's construction expenditures and funding from TMGP's long-term credit facilities. During the six month period ended June 30, 2010, the Company recorded its proportionate share of cash additions to property, plant and equipment of \$31,592,417 for the current construction of Toba Montrose and its proportionate share of cash additions to property, plant and equipment of \$12,541,527 for the current construction of the Dokie Wind Project. During the six month period ended 30 June 2010, the Company also recorded its proportionate share of cash additions to intangibles of \$292,741 for the current construction of Toba Montrose and its proportionate share of cash additions to intangibles of \$1,651 for the current construction of the Dokie Wind Project. At June 30, 2010, the Company had recorded its proportionate share of TMGP's long-term debt, being \$181,360,000, of which \$972,918 was deposited in a restricted cash account pending required payments for Toba Montrose construction and related costs. At June 30, 2010, the Company recorded its proportionate share of DGP's long-term debt, being \$87,255,461, of which \$33,069,695 was deposited in a restricted cash account pending required payments for the Dokie Wind Project construction and related costs.

The Company is required to fund its pro-rata share of the Toba Montrose construction cost contingency.

Excluding the TMGP and DGP project financing disclosed below, the Company's main source of financing to date has been from the sale of common shares from treasury. While Toba Montrose is expected to be fully operational during the third quarter of 2010 and is expected to generate positive cash flow and the Dokie Wind Project is also expected to generate positive cash flow once it is online in late 2010 or early 2011, the amount and timing of distributable cash flow to the Company from each of TMGP and DGP has yet to be determined. As such, during the next twelve months, the Company will need to raise additional working capital. The amount required will be dependent on the timing and advancement of the outcome of optimization and review work currently underway at both the Upper Toba Valley Project and the potential Dokie Wind Expansion Project. As well, further funds may be required for the continued development of the Company's other power projects and its 40% share of TMGP's construction cost contingency.

#### TMGP project financing

During 2007, TMGP engaged GE Capital Markets (Canada), Ltd., an affiliate of GE, and the Manufacturers Life Insurance Company to arrange the required project debt financing. The co-lead arrangers led a syndicate of financial institutions and provided TMGP with the following:

- a \$370 million, 38-year, senior secured credit facility with a fixed interest rate, a fixed draw down schedule to correspond with the three-year construction period and a repayment period over the 35-year term of the project's EPA with BC Hydro. The interest rate on this credit facility is 6.288% per annum during construction and 6.173% thereafter. As at June 30, 2010, the lenders had funded the full \$370 million under this credit facility of which the Company's proportionate share was \$148 million.
- a \$100 million, 38-year, senior secured credit facility with floating interest rate, flexible draw downs during the three-year construction period and a repayment period over the 35-year term of the project's EPA with BC Hydro. The interest rate on this credit facility is based on one month Canadian dollar bankers' acceptance rates during construction and three months Canadian dollar banker's acceptance rates thereafter, plus an applicable credit spread in each instance. The credit spread is 1.35% per annum during the construction period and for the first four years thereafter, and 1.60% for the remaining term of the credit facility. As at June 30, 2010, the lenders had funded \$83.4 million under this credit facility of which the Company's proportionate share was \$33.4 million. Concurrently with the closing of this floating rate credit facility, TMGP entered into two interest rate swap contracts, one for the estimated term of the construction period and one for the estimated operating term, to effectively fix the interest rates on the floating rate facility.

GE, through an affiliate, provided a \$100 million equity bridge loan to TMGP. In July 2010, following commencement of commercial operations GE invested \$100 million of equity in TMGP which has been used to repay the \$100 million equity bridge loan. TMGP paid interest to the GE affiliate on the equity bridge loan up a cumulative maximum amount of \$15 million payable during construction. As at June 30, 2010, TMGP had drawn the entire \$100 million under the equity bridge loan and had paid a total of \$6.5 million in interest.

#### DGP project financing

During 2009 DGP engaged the Manufacturers Life Insurance Company to arrange the required project debt financing. The arrangers led a syndicate of financial institutions to provide DGP with a \$175 million loan. During 2009 the credit agreement was executed and a \$175 million Construction Loan was funded. At the Term Conversion Date, or the date at which certain conditions have been met, including substantial completion of the Dokie Wind Project, the Construction Loan automatically converts to a Term Loan, at which time it will be subject to certain debt covenants and repayment terms.

The \$175 million loan has a maturity date of the earlier of the 20th anniversary of the Term Conversion Date and expiry of the EPA, which is anticipated to be no earlier than December 31, 2030. The annual interest rate on this loan is fixed at 7.243%.

#### **CONTRACTUAL OBLIGATIONS**

In 2009, the Company contributed \$30 million in equity to TMGP, which was primarily to fund an increase in capacity of the 230 KV transmission line being built from the Toba Valley to Saltery Bay. The Company has the right to use, subject to a priority use agreement, any additional unused capacity of the TMGP transmission line for the Upper Toba Valley Project. In 2007, an affiliate of GE provided a \$30 million contingent equity guarantee to TMGP senior debt lenders to support the Company's \$30 million equity contribution which was made in 2009. The Company paid the GE affiliate a 3% per annum fee on the amount of guarantee provided, with the last payment made in November 2009.

In 2008, the Company extended an agreement with Knight Piesold to identify and evaluate potential run-of-river sites through to 2014. The agreement provides the Company with a right of first refusal to acquire new projects identified by Knight Piesold and also includes a standard non-compete clause to ensure continued interactions between the two companies are free from conflict. The agreement included the issuance of share purchase warrants for the purchase of 100,000 common shares to Knight Piesold exercisable at a price of \$7.93 per common share until May 13, 2010 and a bonus structure if any of the identified projects become commercially viable. These options expired unexercised in the second quarter of 2010.

During 2006, the Company entered into an agreement to lease premises for the Company's office space. Minimum monthly lease payments are required through 2012.

The Company, excluding TMGP and DGP, has no other material contractual obligations for the next five years. The Company is, however, required to carry on the development work to maintain its rights to the run-of-river and wind sites. The Company can elect to abandon its run-of-river and wind sites and in such instances, the Company would then no longer be required to fund any additional development costs.

#### TMGP obligations

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

During 2007, the Company transferred to TMGP Toba Montrose and related permits, licences, IBAs with the Klahoose and Sliammon First Nations and its EPA with BC Hydro. The EPA commits TMGP to supply BC Hydro with all the electricity to be generated from Toba Montrose beginning no later than November 2010 for 35 years, which is expected to be on a long-term average 715,000 MWh annually, net of transmission line losses. The IBAs include financial commitments with respect to signing bonuses, construction access fees, continued access fees, project and training opportunities, and royalty payments. During 2008, TMGP entered into an IBA with the Sechelt First Nations with similarly structured commitments, project and training opportunities and royalty payments to the Klahoose and Sliammon First Nations.

The Company received an Environmental Assessment Certificate from the BC EAO for Toba Montrose in April 2007. This certificate contains a number of commitments that the Company must implement throughout various phases of the project which include mitigation measures to protect wildlife and areas of cultural significance to the Klahoose, Sliammon and Sechelt First Nations. During 2007, the Company transferred this certificate and commitments to TMGP.

TMGP engaged GE Capital Markets (Canada), Ltd., an affiliate of GE, and the Manufacturers Life Insurance Company as co-lead to arrange the required project debt financing. The co-lead arrangers led a syndicate of financial institutions and provided TMGP with \$470 million of 38-year senior secured credit facilities with draw downs to correspond with the three-year construction period and repayment over the 35-year term of the project's EPA with BC Hydro. These credit facilities are secured by TMGP's assets. As at June 30, 2010, the debt providers had advanced on schedule \$453.4 million of the \$470 million credit facilities to TMGP.

TMGP executed a \$497 million fixed-price EPC contract with Kiewit for the construction of Toba Montrose. As at June 30, 2010, TMGP had incurred \$484.2 million under the Kiewit EPC contract. A GE affiliate provided \$28 million of contingent equity and debt service reserve guarantees during construction of the project and \$8 million of contingent debt service reserve guarantee to TMGP debt providers during operations. TMGP is required to pay to the GE affiliate a 3% per annum fee on the

amount of guarantees provided. The Company and GE would be required to fund their pro-rata share of the construction cost contingency.

A GE affiliate provided an \$11.76 million letter of credit to BC Hydro as part of the EPA performance bonding requirements. TMGP is required to pay to the GE affiliate a 3% per annum fee on the face amount of the letter of credit.

### DGP Obligations

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

During 2009, DGP signed an EPA with BC Hydro to supply BC Hydro with all the electricity to be generated from the Dokie Wind Project beginning no later than March 2011 for 25 years. DGP expects to sell to BC Hydro a long-term average of 340,000 MWh of electricity annually, net of transmission line losses.

During 2009, DGP signed MOUs with the McLeod Lake Indian Band and the Halfway River, the West Moberly and the Saulneau First Nations. The MOUs include payments and economic development opportunities for these First Nations during the construction and operation of the Dokie Wind Project.

DGP engaged the Manufacturers Life Insurance Company to arrange the required project debt financing. The co-lead arrangers led a syndicate of financial institutions and provided DGP with a \$175 million loan with repayments to be made from 2011 through 2030. This loan is secured by DGP's assets. As at June 30, 2010, the debt providers had advanced the entire \$175 million loan to DGP.

DGP executed a \$56.5 million fixed-price EPC contract with Mortenson to complete the construction of the Dokie Wind Project. As at June 30, 2010, DGP had incurred \$30.1 million under the Mortenson EPC contract.

A financial institution provided two letters of credit to BC Hydro totalling \$16.3 million as part of the EPA performance bonding requirements. DGP is required to pay to this financial institution a 1% per annum fee on the face amount of the letters of credit.

During 2009, DGP signed various contracts for the maintenance and operation of the wind turbines and associated facilities and equipment.

### Summary of Material Obligations

The following table presents the Company's obligations over time:

In millions	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Long-term debt to be (drawn) repaid	\$265.9	(11.2)	\$7.2	\$8.9	\$261.0
Purchase Obligations (EPC)	\$18.8	\$18.8	-	-	-
Other future obligations	\$45.6	\$0.5	\$10.8	\$7.7	\$26.6

The long-term debt and purchase obligations represent the Company's proportionate interest of 40% in TMGP and 51% in DGP. The obligations above exclude interest to be paid on the long-term debt. Furthermore, TMGP has obligations under its interest rate swap contracts which are discussed in the Financial and Other Instruments section of this MD&A.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not have any off-balance sheet arrangements.

## **TRANSACTIONS WITH RELATED PARTIES**

The Company has no material transactions with related parties.

## **PROPOSED TRANSACTIONS**

### Upper Toba Valley and Bute Inlet Projects

In 2008, the Company and GE signed an MOU to partner on a bid to develop the run-of-river hydro-electric projects in the Toba and Bute Inlets along the southwest coast of BC. The MOU included certain terms for the development and construction of the projects.

The Company and GE jointly bid the Upper Toba Valley and Bute Inlet projects into the BC Hydro 2008 RFP on November 25, 2008. In March 2010, BC Hydro offered the Company and GE an EPA for a modified Upper Toba Valley Project that now includes two Power Sites with a combined expected annual generation of 315,000 MWh of electricity net of transmission line losses. On April 28, 2010, the Company and GE entered into a 40 year EPA with BC Hydro for the modified Upper Toba Valley Project. With the change in size of the Upper Toba Valley Project, the Company and GE are now in discussions on how to proceed with their MOU for the development and construction of the Upper Toba Valley Project.

## **RISKS AND UNCERTAINTIES**

The ability of the Company to become a viable provider of clean power is dependant upon a number of factors and includes, but is not limited to, the following: extensive regulation by all levels of government; successful completion of hydrological and wind studies to confirm that water and wind flows are sufficient to generate enough electricity to provide a suitable return on investment; receipt and renewal of water licences; environmental and other permits to build and operate the projects; the successful negotiation of a long-term contract with a purchaser of electricity; industry risk and competition; the ability to obtain sufficient equity and long-term debt financing to construct the projects, support from First Nations that may have a claim to the land base where the Company's projects lie; community and stakeholder support and the ability to connect the projects to the BCTC transmission line; successful design, construction and operation of the generation facilities and related transmission lines; supply of turbines for its projects.

The Company is dependent upon the personal efforts and commitments of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the operations of the Company could result.

While Toba Montrose is expected to be fully operational during the third quarter of 2010 and is expected to generate positive cash flow and the Dokie Wind Project is also expected to generate positive cash flow once it is online in late 2010 or early 2011, the amount and timing of distributable cash flow to the Company from each of TMGP and DGP has yet to be determined. As such, during the next twelve months, the Company will need to raise additional working capital. The amount required will be dependent on the timing and advancement of the outcome of optimization and review work currently underway at both the Upper Toba Valley Project and the potential Dokie Wind Expansion Project. As well, further funds may be required for the continued development of the Company's other

power projects and its 40% share of TMGP's construction cost contingency. Existing shareholders of the Company may be subject to share dilution.

For further details on risks and uncertainties, see the Company's 2009 Annual Information Form.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in conformity with Canadian GAAP 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 investments, the recoverability of power project development costs, property, plant and equipment, intangible assets, impairments, 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.

### Investment

The Company previously accounted for its investment in the units of AltaGas as available for sale investments, with the value being based on the market price of the units and unrealized gains or losses recorded in other comprehensive income. This investment was sold in May 2010.

### Power project development costs

The Company capitalizes direct costs associated with development of its power projects. If costs associated with the development of projects meet certain criteria, they are classified as intangible assets and ultimately are amortized over the useful life of the projects once commercial production commences. The criteria that the Company must demonstrate are i) technical feasibility of the project; ii) its intention to complete the project and use or sell it; iii) its ability to use or sell the project; iv) how the project will generate probable future economic benefits; v) availability of adequate technical, financial and other resources to complete the development and to use or sell the project; vi) its ability to measure reliably the expenditure attributable to the project during its development. If costs no longer meet these criteria, the costs are written off immediately.

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 project financing to successfully complete the development and construction of the projects, and the long-term generation and sale of sufficient electricity on a profitable basis.

### 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 applicable lease.

Electricity generating facilities, transmission lines, and other costs associated with the construction of Toba Montrose and the Dokie Wind Project are carried at cost, which consists of direct labour, material and equipment costs, engineering and project development costs and other costs incurred that are

incremental and directly attributable to the development and construction of the projects. Amortization of these assets over their expected useful lives will begin upon substantial completion of the facilities.

Net incremental project 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 and the Dokie Wind Project are substantially complete and ready for commercial operation.

#### Intangible assets

Intangible assets include project permits and licenses, the EPA with BC Hydro, prepaid land tenure license amounts, and First Nations IBA and MOU costs for Toba Montrose and the Dokie Wind Project. Payments made to First Nations under the terms of the IBAs and MOUs 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.

Amortization of TMGP's intangible assets will be calculated on a straight-line basis over the 35 year term of the EPA, applicable permits, licenses and agreements. DGP's intangible assets will be amortized on a straight-line basis over the 25 year term of the EPA and applicable agreements.

#### Impairment of long-lived assets

Long-lived assets, including power project development costs, property, plant and equipment, intangible assets and investments, 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.

#### Determination of the fair value of interest rate swap contracts

The fair value of interest rate swap contracts are determined using current market rates and takes into account its own credit risk and the credit risk of the counterparty. See Financial and Other Instruments for details on the interest rate swap contracts.

#### 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 common shares issued.

The Company uses the Black-Scholes option pricing model to calculate the fair value of stock options and compensatory warrants granted. This model is subject to various assumptions. The assumptions the Company makes will likely change from time to time. At the time the fair value is determined, the methodology the Company uses is based on historical information, as well as anticipated future events.

### Determination of future 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.

## **FUTURE ACCOUNTING STANDARDS**

### International Financial Reporting Standards (“IFRS”)

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The transition date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for each quarter in the year ended December 31, 2010. The Company has developed a changeover plan to complete the transition to IFRS by January 1, 2011, including the preparation of required comparative information.

The following table provides a summary of our changeover plan, the key activities involved, and the current status of these tasks:

<b>Key Activities</b>	<b>Current Status</b>
<b>Financial Reporting</b> <ul style="list-style-type: none"><li>Analyze and select accounting policies where alternatives are permitted, including IFRS 1 elections</li><li>Quantify key differences for opening balance sheet</li><li>Prepare IFRS consolidated financial statements, including IFRS 1 reconciliations</li></ul>	<ul style="list-style-type: none"><li>Finalized IFRS 1 elections and formulated policy positions for key accounting differences during 2009</li><li>Preparation of draft consolidated financial statements (opening balance sheet as at January 1, 2010 and the quarter ended March 31, 2010) and IFRS 1 reconciliations are in progress</li></ul>
<b>Training</b> <ul style="list-style-type: none"><li>Provide technical training to key accounting personnel and management</li></ul>	<ul style="list-style-type: none"><li>Training to applicable personnel completed</li><li>Specific training will be provided on an as-needed basis during 2010</li></ul>
<b>Control Environment</b> <ul style="list-style-type: none"><li>Maintain effective controls throughout the IFRS conversion process</li><li>Revise control environment for changes in processes and controls as a result of</li></ul>	<ul style="list-style-type: none"><li>To be completed</li></ul>

transition to IFRS	
Financial Information Systems <ul style="list-style-type: none"> <li>Identify impact on financial systems and changes required</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of financial system that captures IFRS information completed</li> </ul>

IFRS changeover requires the preparation of an opening statement of financial position at January 1, 2010. This will reflect retrospective application of IFRS subject to certain items where prospective application is either required or permitted. We have identified certain accounting policies whereby IFRS will result in a significant change for the Company, whereas in other areas no policy change is expected. There are unavoidably some areas where the extent of the policy change has not yet been finalized pending completion of related International Accounting Standards Board projects.

### IFRS 1 – First-time Adoption of IFRS

IFRS 1, “First time adoption of International Financial Reporting Standards”, generally requires that all IFRS standards and interpretations be accounted for on a retrospective basis. IFRS 1 provides for certain optional exemptions and other mandatory exceptions to this general principal. The most significant IFRS optional exemptions which we expect to apply are:

Accounting Policy	IFRS 1 Exemption	Will the IFRS 1 exemption be applied?
IFRS 3, Business Combinations	This allows an entity that has conducted prior business combinations to apply IFRS 3 on a prospective basis from the date of transition. This avoids the requirement to restate prior business combinations.	Yes, IFRS 3 will be applied prospectively and prior business combinations will not be restated.
IFRS 2, Share-based Payment Transactions	Full retrospective application may be avoided for certain share-based payment transactions depending on the grant date, vesting terms and settlement of any related liabilities.	Yes, IFRS 2 will be applied prospectively for prior share-based payment transactions.
IFRIC 4, Leases	The Company may determine whether an arrangement existing at the date of transition to IFRSs contains a lease on the basis of facts and circumstances existing at that date rather than at the inception of the arrangement.	Yes, IFRIC 4 will be applied prospectively for all leases.

Other key changes identified relating to the adoption of IFRS include:

### Investments in Joint Ventures

IAS 31 – *Investments in Joint Ventures* is currently under revision and the new standard is expected to be finalized in 2010. It is expected that IAS 31 will require investments in joint ventures to be accounted for using the equity method. This change will result in the Company changing its method of accounting for its investments in TMGP and DGP from proportionate consolidation to the equity method.

The Company will account for its investments in joint ventures from the inception of the investment using the equity method. This will result in significant changes in the presentation of the statement of financial position and the statement of operations. Net earnings/loss and net assets are not expected to differ as a result of applying the equity method of accounting. However, the balances of each line item on the statement of financial position and the statement of operations are expected to change significantly.

The Company has identified that the deferred gain on the transfer of assets to TMGP that is currently recognized on the balance sheet will be eliminated on transition.

### **Financial Instruments**

IAS 39 – *Financial Instruments* will be applied prospectively in the opening IFRS statement of financial position as this is required under IFRS 1 as a mandatory exemption. The cash flow hedge currently held by TMGP is tested for effectiveness on a quarterly basis. Under Canadian GAAP, the effectiveness of the hedge is tested without consideration for the credit risk of the party or counter-party (depending on whether the hedge is in an asset or a liability position). Under IAS 39, the effectiveness of the hedge needs to be tested considering the credit risk of the party or counter-party. This may result in the hedge becoming ineffective or a change to the amount of the hedge that is effective and ineffective. The Company has put in place the appropriate IAS 39 compliant hedging documentation at January 1, 2010.

### **Share-Based Compensation**

IFRS 2– *Share Based Payments* will be applied prospectively in the opening IFRS statement of financial position, as the Company has elected to apply the IFRS 1 exemption. Under IFRS each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches. Currently under Canadian GAAP these awards are calculated as one grant and the resulting fair value is recognized on a straight-line basis over the vesting periods.

The Company has not yet completed the quantification of the impact the above noted changes will have on its financial statements.

## **FINANCIAL AND OTHER INSTRUMENTS**

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. On May 1, 2010 the notional amount of the swap reached the maximum amount of \$100 million. TMGP and the counterparty net settle the amount owing on a monthly basis.

The second interest rate swap contract provides for quarterly settlements from November 1, 2010 to June 30, 2045 (“Long Dated Interest Rate Swap”). Pursuant to the interest rate swap agreement, TMGP will receive interest on a notional amount at the three month Canadian dollar bankers’ acceptance rate from the counterparty and will pay interest on the notional amount at an interest rate of 5.341% per annum. The notional amount is \$100 million and is reduced in amounts based on the scheduled principal repayments on the \$100 million floating rate facility over the life of the interest rate swap.

TMGP and the counterparty will net settle the amount owing on a quarterly basis commencing on December 31, 2010.

Prior to July 15, 2008, the Company and TMGP had not designated the two interest rate swap contracts as hedges in accordance with CICA Handbook Section 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 interest rate swap 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. 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 are 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.

In March 2009, GE and Plutonic TMP Holdings Inc. signed an amendment to the TMGP partnership agreement, which resulted in a reallocation of the gains and losses arising from the change in fair value of the interest rate swap contracts. For the short dated interest rate swap contract, which expires in November 2010, the Company is now solely liable for any gains or losses in the event of an early termination. For the long dated interest rate swap contract, which expires in June 2045, the Company would be liable for the first \$13.0 million of any gains or losses in the event of an early termination. See the Results of Operations section for details on the reallocation of the interest rate swap gains and losses. Further details on the interest rate swap contracts can be found in note 9 of the Interim Consolidated Financial Statements.

## **MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

In compliance with the requirements of National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, our Certifying Officers have reviewed and certified the unaudited interim Consolidated Financial Statements for the three and six month period ended June 30, 2010, together with other financial information included in our annual securities filings. Our Certifying Officers have also certified that disclosure controls and procedures have been designed to provide reasonable assurance that material information relating to our Company is made known within our Company during the three and six month period ended June 30, 2010.

## **CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

There have been no changes in the Company's internal controls over financial reporting during the three and six month period ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. Management will continue to update controls as necessary as the Company transitions from a development stage company to a production stage company, and on full adoption of IFRS in 2011. Future changes to internal controls over financial reporting may be deemed to be a material modification (either individually or when considered

collectively) and therefore any material changes to internal controls over financial reporting will be disclosed as they occur.

**DISCLOSURE OF OUTSTANDING SHARE DATA**

As at August 9, 2010, the Company had the following common shares, stock options and warrants outstanding:

Common shares	65,418,505
Stock options (vested and unvested)	5,893,023
Warrants	-
Fully Diluted common shares outstanding	71,311,528