

**PLUTONIC POWER CORPORATION**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**Third Quarter Ended September 30, 2005**

**(Unaudited – prepared by management)**

The Company's auditors have not performed a review of these Interim Consolidated Financial Statements

**Plutonic Power Corporation**  
**Consolidated Balance Sheets**  
(unaudited)

	As at September 30, 2005	As at December 31, 2004
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 320,259	\$ 1,923,424
Accounts receivable	77,035	31,235
Prepaid financing costs	-	5,000
	397,294	1,959,659
<b>Power Projects</b> (note 4)	3,158,820	1,803,706
<b>Equipment</b> (note 5)	4,989	6,437
	\$ 3,561,103	\$ 3,769,802
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 217,533	\$ 104,250
<b>Future Income taxes</b>	567,000	567,000
	784,533	671,250
<b>Shareholders' equity</b>		
Share capital (note 6)	4,003,379	3,802,368
Contributed surplus (note 6)	446,580	219,058
Deficit	(1,673,389)	(922,874)
	2,776,570	3,098,552
	\$ 3,561,103	\$ 3,769,802

Approved by the board of Directors:

"Donald A. McInnes"

Director

"R. Stuart Angus"

Director

**Plutonic Power Corporation**  
**Consolidated Statements of Loss and Deficit**  
(unaudited)

	Three months ended Sept 30		Nine months ended Sept 30	
	2005	2004	2005	2004
<b>Expenses</b>				
Amortization	\$ 488	\$ -	\$ 1,448	\$ -
Corporate development	18,375	-	54,625	-
Dues and subscriptions	2,438	-	4,093	-
Government and community relations	18,180	-	67,680	-
Management fees	27,887	10,870	129,140	28,988
Office	16,875	-	53,749	-
Professional fees	41,870	11,183	54,930	33,326
Rent	11,172	6,745	30,755	11,945
Stock-based compensation (note 6)	30,899	55,688	263,522	149,560
Support services	14,935	24,637	30,735	44,999
Transfer agent and listing fees	2,040	5	16,047	25,427
Travel and promotion	29,456	-	71,698	-
<b>Loss before other items</b>	214,615	109,128	778,422	294,245
Interest income	(8,460)	-	(12,142)	-
Gain on sale of marketable securities	(15,765)	-	(15,765)	-
Tide property costs written off	-	-	-	30,000
<b>Net Loss</b>	190,390	109,128	750,515	324,245
<b>Deficit, beginning of period</b>	1,482,999	670,674	922,874	455,557
<b>Deficit, end of period</b>	\$ 1,673,389	\$ 779,802	\$ 1,673,389	\$ 779,802
<b>Basic and diluted loss per share</b>	\$ 0.01	\$ 0.02	\$ 0.06	\$ 0.04

**Plutonic Power Corporation**  
**Consolidated Statements of Cash Flows**  
(unaudited)

	Three months ended Sept 30		Nine months ended Sept 30	
	2005	2004	2005	2004
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net loss for the period	\$ (190,390)	\$ (109,128)	\$ (750,515)	\$ (324,245)
Items not requiring (providing cash)				
Amortization	488	-	1,448	-
Stock-based compensation	30,899	55,688	263,522	149,560
Tide property costs written off	-	-	-	30,000
	(159,003)	(53,440)	(485,545)	(144,685)
Changes in non-cash working capital components				
Accounts receivable	(37,512)	(6,666)	(45,800)	(51,450)
Prepaid financing costs	-	-	5,000	16,000
Accounts payable	112,876	119,918	113,283	219,355
	(83,639)	59,812	(413,062)	39,220
<b>Investing activities</b>				
Power projects acquired	-	-	-	(1,162,137)
Power projects expenditures	(509,429)	(155,237)	(1,248,853)	(89,064)
	(509,429)	(155,237)	(1,248,853)	(1,251,201)
<b>Financing activities</b>				
Common shares issued for cash	-	143,000	58,750	731,171
Share issue costs	-	(4,617)	-	(4,617)
	-	138,383	58,750	726,554
<b>Net cash (used) received during the period</b>	(593,068)	42,958	(1,603,165)	(485,427)
<b>Cash, beginning of period</b>	913,327	64,604	1,923,424	592,989
<b>Cash, end of period</b>	\$ 320,259	\$ 107,562	\$ 320,259	\$ 107,562

**Supplemental disclosure of non-cash investing and financing activities**

During Q2-2005 and Q2-2004, the Company issued 332,063 and 1,532,500 of its common shares with a value of \$106,261 and \$490,400 respectively as part of the consideration for the acquisition of Plutonic Hydro Inc.

During Q2-2004, the Company issued 100,000 common shares with a value of \$30,000 in connection with acquisition of mineral properties

**PLUTONIC POWER CORPORATION**  
**Notes to interim consolidated financial statements**  
September 30, 2005  
(Unaudited – prepared by management)

**1. OPERATIONS**

The Company was incorporated on May 18, 1999, under the name 585571 B.C. Ltd., pursuant to the provisions of the Company Act, British Columbia. The Company changed its name to Plutonic Capital Corp. on July 8, 1999 and to Plutonic Capital Inc. on August 12, 2003, and to Plutonic Power Corporation on May 13, 2004. During 2003, the Company changed its year end from June 30 to December 31.

On May 17, 2004, the Company acquired all of the outstanding shares of Plutonic Hydro Inc., formerly 648795 B.C. Ltd. (Notes 2 and 4). The Company and Plutonic Hydro Inc. are collectively referred to in these consolidated financial statements as the “Company”. The Company’s principal operations are now the acquisition, construction and operation of independent power generation projects in British Columbia (Note 4). To date the Company has incurred costs on nineteen different sites located in the southwest of British Columbia, with annual estimated power production capacity at sites ranging from 10 to 120 MW. The Company has submitted applications for water licenses and Crown land rights for some of these sites, which have been accepted by Land and Water British Columbia Inc., a Crown corporation of the Government of British Columbia. The subsequent development of the Company’s hydro electric projects are dependent upon the approval and granting of water licenses and Crown land rights, the ability to raise sufficient financing to complete the projects, the construction of the hydro electric projects, and to sell the electricity generated to obtain income and cash flow from the projects.

These financial statements have been prepared on the basis that the Company is a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of operations. The Company is still in the initial stages of its development and has incurred only losses to date. The Company expects that the approval and granting of water licenses and subsequent development of its hydro electric projects will result in the achievement of profitable operations. However, additional financing from shareholders or third parties may be necessary to satisfy liabilities as they come due if current expectations are not realized. If the company requires such financing and is unable to attain it, material adjustments may be required to the reported amount of assets, liabilities and results of operations.

**2. SIGNIFICANT ACCOUNTING POLICIES**

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

**Acquisition and Basis of Presentation**

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

The Company acquired all the outstanding shares of Plutonic Hydro Inc. on May 17, 2004 for \$490,400 through the issue of 1,532,500 common shares with a deemed value of \$0.32 per share. The net assets acquired on the purchase of Plutonic Hydro Inc. were:

Cash and accounts receivable	\$ 35,272
Power prospect development costs	654,587
Liabilities	<u>(707,309)</u>
	(17,150)
Deemed value of shares issued	<u>490,400</u>
Net acquisition cost of power projects	<u>\$ 507,550</u>

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

**PLUTONIC POWER CORPORATION**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Power Project Development Costs**

The Company accounts for its power prospects by accumulating and deferring costs associated with the prospects. Costs associated with failed prospects are written off at the date the Company is unable to receive the necessary regulatory approvals or determines that the potential project is uneconomic. Costs associated with successful prospects are reclassified as capital assets amortized over the productive life of the project. Costs associated with unsuccessful projects are written off in the year the determination to abandon the project is made.

The recoverability of the accumulated power prospect project costs is dependent upon receiving the necessary regulatory approvals, the confirmation of economic production and distribution of power, the ability of the Company to obtain the necessary financing to successfully complete the development of projects and to meet the requirements, from time to time, of lenders who are providing this financing and upon future profitable production.

**Reclamation**

The Company's activities are subject to various federal and provincial laws and regulations governing operations and the protection of the environment. These laws and regulations are continually changing and are generally becoming more restrictive. The Company conducts its operations so as to comply with all applicable laws and regulations and to protect public health and the environment. The Company believes its operations are materially in compliance with all applicable statutory requirements. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations. The ultimate amount of reclamation and other future costs to be incurred for the Company's operations is uncertain.

**Equipment**

Equipment is recorded at cost. Amortization is recorded using the declining balance method at an annual rate of 30%.

**Impairment of Assets**

The Company will periodically determine whether or not its long-lived assets, which include equipment and power prospect and project costs, have been impaired. The Company's business, the market and business environment will be continually monitored and assessments will be made to determine whether an event has occurred that indicates a possible impairment of its assets. If such an event has occurred, an estimate will be made of future undiscounted cash flows from the capital assets. If the total of the discounted future cash flows, excluding financing charges, is less than the carrying amount of the capital assets, an impairment will be recognized in the financial statements.

**Income Taxes**

The Company follows the liability method of accounting for income taxes. Using this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements of the Company and their respective tax bases, using enacted income tax rates. The effect of a change in income tax rates on future tax liabilities and assets is recognized in income 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 Shares**

The Company has issued certain common shares and, pursuant to the provisions of the Income Tax Act Canada, has transferred the tax deductions related to power prospect and project costs to the subscribers of these shares. Under these circumstances, share capital is reduced and a future income tax liability is recorded for the estimated future income taxes payable by the Company as a consequence of the transfer of these deductions.

**PLUTONIC POWER CORPORATION**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Share-based Compensation**

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

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

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

**Loss Per Share**

The basic loss per share is calculated on the basis of the weighted average number of common shares of the Company that were outstanding in each reporting period. The diluted loss per share includes the potential dilution from share purchase options and warrants using the treasury stock method to calculate potential dilution, whereby 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 period.

**Use of Estimates**

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

**3. CHANGES IN ACCOUNTING STANDARDS**

The Company intends to adopt the new accounting standard recommended by the Canadian Institute of Chartered Accountants on asset retirement obligations. Pursuant to this policy, the Company will recognize asset retirement obligations in the period in which they are incurred based on estimates of fair value of the obligations.

**4. POWER PROJECTS**

Power projects consist of engineering and permitting costs and license application fees relating to project and design plans and water and land use license applications.

The Company has received confirmation of acceptance of its water license applications for its active prospects from the Province of British Columbia. The Company may be required to incur additional costs, at the request of the Province, in order to determine whether or not the Company will be granted a license. Should the Company be successful in obtaining licenses, each license will be valid for the operating life of the hydro electric project, which is estimated to be forty to sixty years based on current engineering plans.

It is management's opinion that costs which have been deferred will be recoverable in the future, subject to obtaining the necessary water licenses and Crown land rights currently being applied for and the successful commencement of commercial activities related to the hydro electric project being designed

In the event the water licenses and Crown land rights are not approved and granted and the projects do not commence as planned, the related deferred costs will be written off. The Company's accumulated expenditures to September 30, 2005 on its prospective hydro electric projects are:

**PLUTONIC POWER CORPORATION**  
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**4. POWER PROJECTS (continued)**

	<b>Dec 31, 2003</b>	<b>Dec 31, 2004</b>	<b>Expenditures 2005</b>	<b>Sept 30, 2005</b>
Hope Projects				
Ruby Creek	\$ 22,064	\$ 250,474	\$ 68,480	\$ 318,954
American Creek	3,434	38,920	9,863	48,783
Emory Creek	4,839	54,853	35,032	89,885
Howe Sound Projects				
Rainy River	15,788	195,557	177,433	372,990
Other Howe Sound Projects	--	--	24,377	24,377
Green Power Corridor ("GPC")				
East Toba River	30,566	354,831	469,324	824,155
Montrose Creek	30,566	354,831	293,561	648,392
Other GPC Projects	47,743	554,240	219,755	798,172
Europa Creek Project	--	--	57,289	57,289
<b>Total Project Costs</b>	<b>\$ 155,000</b>	<b>\$ 1,803,706</b>	<b>\$ 1,355,114</b>	<b>\$ 3,158,820</b>

The following descriptions are of the projects that the Company is currently focusing most of its resources and those projects that the Company expects to submit into the Winter 2005/Spring 2006 BC Hydro call for tender. All projects continue to have ongoing baseline environmental studies and engineering work.

**Hope Projects (Ruby, American and Emory Creek)**

Located near Hope, British Columbia the Hope Projects have an initially designed installed capacity of 30MW with the potential to generate approximately 112 gigawatt hours per year

**Howe Sound Project (Rainy River)**

On August 1, 2004, the Company entered into an agreement with the Howe Sound Pulp and Paper Limited Partnership ("HSLP") to jointly develop a hydro electric generating plant in the Rainy River area, Howe Sound. The Company will have an 80% interest in the cash flow from the project after receiving full repayment of its costs plus 10% fee in connection with the construction of the plant, including interest at prime plus 4% per annum (calculated quarterly). HSLP will have the remaining 20% interest in the cash flow of the project. The initial design for the project is an installed capacity of 20MW with the potential to generate approximately 72 gigawatt hours per year.

**Green Power Corridor (East Toba River and Montrose Creek)**

The Green Power Corridor comprises of two projects at the top of Toba Inlet, one project in the Upper Lillooet Valley and nine projects at the top of Bute Inlet.

The East Toba and Montrose Creek Projects have been accepted into the Environmental Assessment Permitting Process. The Environmental Assessment Office of the Province of British Columbia has issued an order binding the East Toba and Montrose Creek Projects to a full environmental assessment before a decision to issue permits will be made. This process is expected to take approximately 18 months to the Spring of 2006. The East Toba and Montrose Creek prospects are expected to have a combined installed capacity of 170MW with the potential to generate approximately 600 gigawatt hours per year.

**Europa Creek Project**

Stages 1 and 2 towards securing a Water License and Crown Land rights from Land and Water British Columbia have been completed for the Europa Creek Project. The Europa Creek Project has a design capacity of 81 Megawatts ("MW") and is expected to generate 280 GWh of green energy per year.

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**5. EQUIPMENT**

	September 30, 2005			December 31, 2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer Equipment	<u>\$7,573</u>	<u>\$2,584</u>	<u>\$4,989</u>	<u>\$ 6,437</u>

**6. SHARE CAPITAL**

Authorized  
100,000,000 common shares without par value  
10,000,000 preferred shares without par value, issuable in series

Common shares – Issued and outstanding	Number of Shares	Amount
Issued for cash on incorporation	1	\$ 1
Issued for cash	999,999	99,999
Issued for cash, net of share issue costs of \$59,541	<u>1,300,000</u>	<u>200,459</u>
Balance June 30, 2003	2,300,000	300,459
Stock Consolidation on a 1 for 2 basis	(1,150,000)	--
Issued for mineral property	50,000	10,000
Issued for cash on the exercise of warrants	60,000	15,000
Issued for cash, net of share issue costs \$19,127	<u>2,500,000</u>	<u>480,873</u>
Balance December 31, 2003	3,760,000	806,332
Issued for mineral property	100,000	30,000
Issued for cash, net of share issue costs of \$811,398	5,529,169	2,145,036
Issued for cash on exercise of warrants and options	1,205,000	330,600
Issued for acquisition of Plutonic Hydro Inc	<u>1,532,500</u>	<u>490,400</u>
Balance December 31, 2004	12,126,669	3,802,368
Issued for cash on exercise of options	226,250	58,750
Exercise of vested options	-	36,000
Issued for the acquisition of Plutonic Hydro Inc	<u>332,063</u>	<u>106,261</u>
Balance June 30 and September 30, 2005	<u>12,684,982</u>	<u>\$ 4,003,379</u>

989,625 of the issued common shares are subject to escrow restrictions.

The Company has agreed to issue additional shares, or make a cash payment, when two power projects obtained on the acquisition of Plutonic Hydro Inc. secure construction financing and commence construction. The number of shares or cash payment will be based on the generating capacity of those projects.

The Company issues share purchase options to directors, officers, employees of the Company and persons who provide ongoing services to the Company under an incentive stock option plan dated May 6, 2004 and amended on June 9, 2005. The Company has reserved 20% of outstanding common shares (2,425,000 shares) for the issue of share purchase options under this plan. As of September 30, 2005 the Company has issued 2,309,250 share purchase options.

The exercise price of share purchase options will be no less than the closing price of shares on the business day immediately preceding the date on which the option is granted. Once approved, options will normally vest at the rate of 25% on the date of the grant and 25% every six months thereafter. Options will expire no later than five years from the grant date, except that they will expire within ninety days when the holder is no longer qualified to hold the option (other than for cause, when the option will expire immediately)

**PLUTONIC POWER CORPORATION**  
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**6. SHARE CAPITAL (continued)**

Options	Number of Shares					Price Per Share	Expiry Date	Grant Date
	Balance December 31, 2004	Granted during the period	Exercised during the period	Balance September 30, 2005	Exercisable at September 30, 2005			
						Exercise price and grant date fair value		
Directors	103,750	--	103,750	--				
Officers	7,500	--	7,500	--				
Employees	2,500	--	2,500	--				
Directors	526,250	--	--	526,250	526,250	\$0.20	8/09/08	8/09/03
Officers	20,000	--	--	20,000	20,000	\$0.20	8/09/08	8/09/03
Employees	65,000	--	--	65,000	65,000	\$0.20	8/09/08	8/09/03
Directors	412,000	--	37,500	374,500	271,500	\$0.32	5/17/09	5/17/04
Officers	25,000	--	--	25,000	18,750	\$0.32	5/17/09	5/17/04
Employees	120,000	--	--	120,000	90,000	\$0.32	5/17/09	5/17/04
Consultants	225,000	--	75,000	150,000	93,750	\$0.32	5/17/09	5/17/04
Officers	150,000	--	--	150,000	75,000	\$0.65	9/29/09	9/29/04
Directors	155,000	--	--	155,000	77,500	\$0.75	11/23/09	11/23/04
Consultants	75,000	--	--	75,000	37,500	\$0.75	11/23/09	11/23/04
Employees	370,000			370,000	185,000	\$0.75	11/23/09	11/23/04
Officers	--	150,000	--	150,000	37,500	\$0.80	9/01/10	9/01/05
	<u>2,257,000</u>	<u>150,000</u>	<u>226,250</u>	<u>2,180,750</u>	<u>1,497,750</u>			

Warrants	Number of Shares	Price Per Share	Expiry Date	Issue Date
	2,270,000	\$0.31	5/16/06	5/16/04
	508,000	\$1.60	12/23/05	12/23/04
	1,092,000	\$1.10	3/15/06	12/23/04
	272,770	\$1.25	12/23/05	12/23/04

The company determines the fair value of the options granted during a year using a generally accepted option pricing model, such as the Black-Scholes model. The following assumptions were used in valuing the options granted for 2004 and 2005.

	2005	2004
Average risk-free interest rate	4.0%	3.0%
Expected share price volatility	96%	74%
Expected average period until exercise	3 years	3 years
Expected dividend yield	--	--

**PLUTONIC POWER CORPORATION**  
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**6. SHARE CAPITAL (continued)**

Total compensation expense and contributed surplus included in these financial statements for director, officer and employee options which have vested is:

**Contributed Surplus**

Balance, July 1, 2003	\$ -
Share-based compensation expense	<u>31,313</u>
Balance, December 31, 2003	31,313
Share-based compensation expense	<u>187,745</u>
Balance December 31, 2004	219,058
Share-based compensation expense	263,522
Exercise of vested options	<u>(36,000)</u>
Balance, September 30, 2005	<u>\$ 446,580</u>

The company adopted the policy for share based compensation of employees and non-employees, as described in Note 2 In accordance with the requirements of the CICA Handbook, the company will account for the change in policy on a prospective basis. The company will accordingly record compensation expense only for options vesting after the adoption this policy and subsequently will not record any compensation expense for options which vested in prior years. The proceeds of those options will be recorded in share capital when they are exercised. Had the company recorded the compensation expense for options which vested in prior years retroactively, the deficit and contributed surplus at June 30, 2003 would have increased by \$90,162.

**7. FINANCIAL INSTRUMENTS**

The carrying values of cash, accounts receivable and accounts payable on the balance sheet approximate their respective fair values.

**8. RELATED PARTY TRANSACTIONS**

Substantially all of the Company's administrative operations are performed by a company owned by the President and Director of the Company. This related company charged fees of \$129,140 (2004 - \$28,988) for the nine month period ended September 30, 2005, including \$27,887 (2004 - \$10,870) for the three month period ended September 30, 2005.

**9. INCOME TAXES**

The company has incurred losses for income tax purposes of approximately \$687,000 which can be carried forward to reduce taxable income in future years. If unused, these losses will expire in various years commencing in 2006.

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