

# **PLUTONIC POWER CORPORATION**

## **Interim Consolidated Financial Statements**

### **For the Three Months Ended March 31, 2006**

(These Interim Consolidated financial statements are unaudited and 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)

	March 31 2006	December 31 2005
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 1,705,963	\$ 20,195
Accounts receivable	182,089	144,425
Marketable securities	6,250	6,250
Prepaid expenses	-	3,500
	1,894,302	174,370
<b>Power Projects</b> (Note 3 and 4)	4,500,829	3,838,692
<b>Equipment</b> (Note 5)	4,168	4,506
	\$ 6,399,299	\$ 4,017,568
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 590,933	\$ 620,953
Payable to related party (Note 6)	34,845	67,832
	625,778	688,785
<b>Future Income Taxes</b>	567,000	567,000
	1,192,778	1,255,785
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share Capital</b> (Note 7)	6,603,840	4,001,939
<b>Contributed Surplus</b> (Note 7)	619,200	566,140
<b>Deficit</b>	(2,016,519)	(1,806,296)
	5,206,521	2,761,783
	\$ 6,399,299	\$ 4,017,568

APPROVED BY THE BOARD:

“Donald A. McInnes” Director

“R. Stuart Angus” Director

# PLUTONIC POWER CORPORATION

## Interim Consolidated Statements of Loss and Deficit For the Three Months Ended March 31, 2006 and 2005 (unaudited)

	2006	2005
<b>Expenses</b>		
Amortization	\$ 338	\$ 480
Dues and subscriptions	4,475	1,178
Management fees	32,114	25,458
Office	10,691	11,768
Professional fees	4,250	4,883
Rent	8,066	9,151
Share-based compensation (Note 7)	53,060	113,063
Support services	34,610	6,600
Transfer agent and listing fees	6,786	6,635
Travel and promotion	55,833	13,379
<b>Loss before the following</b>	210,223	195,595
<b>Interest Income</b>	-	(1,955)
<b>NET LOSS</b>	210,223	193,640
<b>DEFICIT, BEGINNING OF PERIOD</b>	1,806,296	922,874
<b>DEFICIT, END OF PERIOD</b>	\$ 2,016,519	\$ 1,116,514
<b>BASIC AND FULLY DILUTED LOSS PER SHARE</b>	\$ 0.02	\$ 0.02
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	12,952,358	12,349,576

# PLUTONIC POWER CORPORATION

## Interim Consolidated Statements of Cash Flows For the Three Months Ended March 31, 2006 and 2005 (unaudited)

	2006	2005
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss	\$ (210,223)	\$ (193,640)
Items not requiring (providing) cash		
Amortization	338	480
Stock-based compensation	53,060	113,063
	(156,825)	(80,097)
Changes in non-cash working capital components		
Accounts receivable	(37,664)	583
Prepaid expenses	3,500	5,000
Accounts payable and accrued liabilities	(30,020)	90,437
Payable to related party	(32,987)	-
	(253,996)	15,923
<b>Investing Activities</b>		
Power project expenditures	(662,137)	(533,299)
	(662,137)	(533,299)
<b>Financing Activities</b>		
Common shares issued for cash	2,616,400	22,750
Share issue costs	(14,499)	-
	2,601,901	22,750
<b>INCREASE (DECREASE) IN CASH</b>	1,685,768	(494,626)
<b>CASH, BEGINNING OF PERIOD</b>	20,195	1,923,424
<b>CASH, END OF PERIOD</b>	\$ 1,705,963	\$ 1,428,798
<b>Supplementary Information on Non-Cash Transactions</b>		
Shares issued for acquisition of subsidiary company	\$ -	\$ 106,261

# PLUTONIC POWER CORPORATION

## Interim Consolidated Statement of Power Projects For the Three Months Ended March 31, 2006 (unaudited)

	East Toba / Montrose	Rainy River	Hope Projects	Other	Total
<b>Balance, December 31, 2004</b>	709,662	195,557	344,247	554,240	1,803,706
Acquisition costs	41,800	15,183	20,455	28,822	106,260
Consulting	166,764	41,491	39,407	90,422	338,084
Engineering	298,855	100,405	27,365	190,825	617,450
Environmental	439,626	20,123	4,307	-	464,056
Interconnection and bid costs	114,120	41,813	85,288	8,675	249,896
Hydrology	98,816	18,298	15,072	59,971	192,157
Other	29,833	7,222	8,728	21,300	67,083
<b>Balance, December 31, 2005</b>	\$1,899,476	\$440,092	\$544,869	\$954,255	\$3,838,692
Acquisition costs	-	-	-	-	-
Consulting	48,647	1,000	4,332	8,752	62,731
Engineering	173,340	36,513	33,646	10,669	254,168
Environmental	130,253	43,022	-	-	173,275
Interconnection and bid costs	58,109	13,528	22,518	2,900	97,055
Hydrology	-	-	21,246	5,770	27,016
Other	38,428	3,859	2,962	2,643	47,892
<b>Balance, March 31, 2006</b>	\$2,348,253	\$538,014	\$629,573	\$984,989	\$4,500,829

# PLUTONIC POWER CORPORATION

## Notes to Interim Consolidated Financial Statements

March 31, 2006

(unaudited)

### 1. OPERATIONS

Plutonic Power Corporation and its wholly owned subsidiary company, Plutonic Hydro Inc., collectively (the “Company”) are incorporated in the Province of British Columbia, Canada. The Company’s principal business operations are the acquisition, construction and operation of independent hydroelectric run of river projects in British Columbia.

These consolidated financial statements have been prepared on the basis that the Company is a going concern, which presumes that the Company will continue operations for the foreseeable future and will be able to realize assets and discharge liabilities in the normal course of business. The ability of the Company to continue as a going concern is dependent on obtaining additional financing through the issue of treasury shares and debt financing to finance its working capital, development costs, water and other licences, financing the construction and securing power contracts for its projects. These consolidated financial statements do not reflect the adjustment or reclassifications which would be necessary if the Company was unable to continue operations.

### 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared on the basis of Canadian generally accepted accounting principles for financial information using the same accounting policies and methods of application as the audited consolidated financial statements of the Company for the year ended December 31, 2005. These interim consolidated financial statements should be read in conjunction with the most recent audited consolidated financial statements of the Company and the notes below:

#### **Consolidation**

These consolidated financial statements include the accounts of Plutonic Power Corporation and its wholly owned subsidiary company, Plutonic Hydro Inc. Inter-company transactions and balances are eliminated upon consolidation.

#### **Power Project Development Costs**

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

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

# PLUTONIC POWER CORPORATION

## Notes to Interim Consolidated Financial Statements

March 31, 2006

(unaudited)

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Equipment

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

#### 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.

#### Share-based Compensation

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

#### Asset retirement obligations

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

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

# PLUTONIC POWER CORPORATION

## Notes to Interim Consolidated Financial Statements

March 31, 2006

(unaudited)

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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 any expected proceeds from the exercise of options or other dilutive instruments are assumed to be used for the repurchase of common shares at the average market price during the period.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and 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 due to factors such as changes in economic conditions, regulatory approvals and negotiations with other parties.

### 3. ACQUISITION OF PLUTONIC HYDRO INC.

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

Cash and accounts receivable	\$ 35,572
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>

In 2005, the Company issued an additional 332,063 of its common shares with an assigned value of \$106,260 in connection with this acquisition.

On the power projects acquired and located in the Bute Inlets, the Company is required to pay a bonus within 30 days of the later of securing construction financing and the commencement of construction. The bonus, payable in shares or cash, at the Company's option, is to be calculated as \$1,000 per GWh per year of electricity to be generated on each of these projects.

# PLUTONIC POWER CORPORATION

## Notes to Interim Consolidated Financial Statements

March 31, 2006

(unaudited)

### 4. POWER PROJECTS

To-date, the Company has accumulated costs on 19 power projects located in primarily in the South-west of British Columbia. The Company's most advanced projects are as follows:

#### **East Toba and Montrose Creeks, Green Power Corridor**

East Toba and Montrose power projects are located at the headwaters of the Toba Inlet on the East Toba River and Montrose Creek. Installed capacity of the two projects is expected to be 196 MW with an expected annual energy generation of 657 gigawatt hours of energy per year.

The Company completed an interconnection study for this project in 2005.

In January 2006, the Company filed an application for an Environmental Assessment Certificate with the British Columbia Environmental Assessment Office for these two power projects. The Company anticipates the issuance of an Environmental Assessment Certificate within 180 days of filing the application.

In April 2006, the Company entered these two power projects into the F2006 BC Hydro Call for Tenders.

#### **Rainy River, Howe Sound Project**

The Rainy River power project is located near Gibsons, British Columbia. The initial design is for an installed capacity of 15MW with the potential to generate approximately 55 gigawatt hours per year.

In 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 at Rainy River. The Company will have an 80% interest in the cash flow from the project after receiving full repayment of its costs plus a 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.

In August 2005, the Company submitted a Water Power Development Plan ("WPDP") for this power project. The purpose of the WPDP is to provide Land and Water British Columbia (LWBC) and other permitting agencies, the information that fully defines the project. The government review and decision making process is expected to be completed by mid-2006 and, once complete, a decision will be made on the issuing of a Water Licence and Crown Land Tenure that would allow for the development of this project. The Company completed an interconnection study for this project in 2005.

In April 2006, the Company entered this power project into the F2006 BC Hydro Call for Tenders.

# PLUTONIC POWER CORPORATION

## Notes to Interim Consolidated Financial Statements

March 31, 2006

(unaudited)

### 4. POWER PROJECTS (continued)

#### Emory Creek, Hope Project

Located near Hope, British Columbia, the Emory Creek Project has a designed installed capacity of 6.5 MW with the potential to generate approximately 28 gigawatt hours of energy per year.

The Company completed an interconnection study for this project in 2005.

In April 2006, the Company entered this power project into the F2006 BC Hydro Call for Tenders.

#### Ruby/Garnet Creek, Hope Project

Located near Hope, British Columbia, the Ruby/Garnet Creek Project has an initially designed installed capacity of 24MW with the potential to generate approximately 87 gigawatt hours of energy per year.

The Company completed an interconnection study for this project in 2005.

### 5. EQUIPMENT

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>March 31, 2006 Net Book Value</b>	<b>December 31, 2005 Net Book Value</b>
Computer equipment	\$ 7,573	\$ 3,405	\$ 4,168	\$ 4,506

### 6. RELATED PARTY TRANSACTIONS

Substantially all of the Company's administrative operations are performed by a company owned by the President/director of the Company. This related company charged fees of \$32,114 (2005 - \$25,458) for these services for the three months ended March 31, 2006 and was owed \$34,845 (December 31, 2005 - \$67,832) at March 31, 2006. The amounts owed to this related company are non-interest bearing.

# PLUTONIC POWER CORPORATION

## Notes to Interim Consolidated Financial Statements

March 31, 2006

(unaudited)

### 7. SHARE CAPITAL

Authorized

100,000,000 common shares without par value

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

Issued and outstanding

	Number of Shares	Amount
<b>Common shares</b>		
Issued and fully paid		
Balance, December 31, 2004	12,126,669	3,802,368
Issued for acquisition of Plutonic Hydro Inc. (Note 3)	332,063	106,260
Share issue costs	-	(1,439)
Issued for cash on exercise of options	226,250	58,750
Exercise of vested options	-	36,000
Balance, December 31, 2005	12,684,982	4,001,939
Issued for cash from private placement	3,100,000	2,480,000
Share issue costs	-	(14,499)
Issued for cash on exercise of warrants	440,000	136,400
Balance, March 31, 2006	16,224,982	\$ 6,603,840

During the quarter ended March 31, 2006, the Company completed a non brokered private placement of 3.1 million units at a price of \$0.80 per unit. Each unit consisted of one common share and one-half of one share purchase warrant. Each full warrant entitles the holder to purchase one additional common share at \$1.25 per share until March 28, 2007 and at \$1.75 per share until March 29, 2008.

689,625 of the issued common shares are subject to escrow restrictions.

The Company grants share purchase options to directors, officers, and employees of the Company and persons who provide ongoing services to the Company under an incentive stock option plan dated May 3, 2004 and as amended on May 16, 2006. The Company has reserved 20% of the outstanding common shares (3,034,000) for issue of share purchase options under this plan.

The exercise price of share purchase options will be no less than the closing price of 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

## Notes to Interim Consolidated Financial Statements

March 31, 2006

(unaudited)

### 7. SHARE CAPITAL (continued)

A summary of share option activity and information concerning outstanding and exercisable options at December 31, 2005 is as follows:

	Options granted	Weighted Average Exercise Price
Balance, December 31, 2004	2,257,000	\$0.42
Options granted	150,000	\$0.80
Options exercised	(226,250)	\$0.26
Balance, December 31, 2005	2,180,750	\$0.46
Options granted	460,000	\$0.80
Balance, March 31, 2006	2,640,750	\$0.51

The following table summarizes information concerning outstanding and exercisable options at March 31, 2006:

Grant date	Expiry date	Number Outstanding	Weighted Average Exercise price	Weighted Remaining Contractual life (in years)	Number Vested and Exercisable	Weighted Average Exercise price
Sept 8, 2003	Sept 8, 2008	611,250	\$0.20	2.44	611,250	\$0.20
May 17, 2004	May 17, 2009	669,500	\$0.32	3.13	669,500	\$0.32
Sept 29, 2004	Sept 29, 2009	150,000	\$0.65	3.50	150,000	\$0.65
Nov 23, 2004	Nov 23, 2009	600,000	\$0.75	3.65	450,000	\$0.75
Sept 1, 2005	Sept 1, 2010	150,000	\$0.80	4.42	75,000	\$0.80
Mar 27, 2006	Mar 27, 2011	160,000	\$0.80	4.99	40,000	\$0.80
Mar 31, 2006	Mar 31, 2011	300,000	\$0.80	5.00	-	\$0.80
		2,640,750	\$0.46	3.51	1,995,750	\$0.51

Subsequent to March 31, 2006, options to purchase 150,000 common shares @\$0.65 per common share were exercised.

The weighted average grant-date fair value of stock options granted during the period ended March 31, 2006 was \$0.56. The Company determines the fair value of the options granted using a Black-Scholes option pricing model, recognizing forfeitures as they occur, using the following weighted average assumptions:

Risk-free interest rate	4.0%
Expected life (years)	3
Expected volatility	116%
Expected dividend yield	Nil

# PLUTONIC POWER CORPORATION

## Notes to Interim Consolidated Financial Statements

March 31, 2006

(unaudited)

### 7. SHARE CAPITAL (continued)

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

Number of Shares	Price Per Share	Expiry Date	Issue Date
1,830,000	\$0.31	May 16, 2006	May 16, 2004
508,000	\$1.10	December 23, 2006	December 23, 2004
1,092,000	\$0.90	December 23, 2006	December 23, 2004
272,770	\$1.25	December 23, 2006	December 23, 2004
1,550,000	\$1.25	Until March 28, 2007	March 28, 2006
	\$1.75	Until March 29, 2008	
5,252,770			

Subsequent to December 31, 2005, the Company issued 2,270,000 common shares pursuant to the exercise of warrants for cash proceeds of \$703,700.

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

#### Contributed Surplus

Balance, December 31, 2004	\$	219,058
Share-based compensation expense		383,082
Exercise of vested options		(36,000)
<hr/>		
Balance, December 31, 2005		566,140
Share-based compensation expense		53,060
Balance, March 31, 2006	\$	619,200

### 8. FINANCIAL INSTRUMENTS

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

### 9. COMPARATIVE FIGURES

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