

PLUTONIC POWER CORPORATION

Interim Consolidated Financial Statements

For the Six Months Ended June 30, 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)

	June 30 2006	December 31 2005
ASSETS		
Current		
Cash	453,149	20,195
Accounts receivable	112,110	144,425
Marketable securities	6,250	6,250
Prepaid expenses	26,921	3,500
Tender security deposits (Note 4)	647,438	-
	1,245,868	174,370
Power Projects (Note 3 and 4)	5,786,399	3,838,692
Equipment (Note 5)	3,830	4,506
	7,036,097	4,017,568
LIABILITIES		
Current		
Accounts payable and accrued liabilities	743,184	620,953
Payable to related party (Note 6)	52,697	67,832
	795,881	688,785
Future Income Taxes	567,000	567,000
	1,362,881	1,255,785
SHAREHOLDERS' EQUITY		
Share Capital (Note 7)	7,323,763	4,001,939
Contributed Surplus (Note 7)	742,062	566,140
Deficit	(2,392,609)	(1,806,296)
	5,673,216	2,761,783
	7,036,097	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 and Six Months Ended June 30, 2006 and 2005 (unaudited)

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Expenses				
Amortization	338	480	676	960
Dues and subscriptions	-	477	3,939	1,655
Management fees	41,612	75,795	73,726	101,253
Office	18,564	25,106	29,791	36,874
Professional fees	4,418	8,177	8,668	13,060
Rent	6,161	10,432	14,227	19,583
Share-based compensation (Note 7)	172,362	119,560	225,422	232,623
Salaries	67,737	9,200	102,347	15,800
Transfer agent and listing fees	9,720	7,372	16,506	14,007
Travel and promotion	62,394	25,863	118,227	42,242
Loss before the following	383,306	282,462	593,529	478,057
Interest Income	(7,216)	(1,727)	(7,216)	(3,682)
NET LOSS	376,090	280,735	586,313	474,375
DEFICIT, BEGINNING OF PERIOD	2,016,519	1,116,514	1,806,296	922,874
DEFICIT, END OF PERIOD	2,392,609	1,397,249	2,392,609	1,397,249
BASIC AND FULLY DILUTED LOSS PER SHARE	0.02	0.02	0.04	0.04
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	17,387,894	12,473,460	15,231,062	12,282,010

PLUTONIC POWER CORPORATION

Interim Consolidated Statements of Cash Flows For the Three and Six Months Ended June 30, 2006 and 2005 (unaudited)

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Cash provided by (used in)				
Operating activities				
Net loss	(376,090)	(280,735)	(586,313)	(474,375)
Items not requiring (providing) cash				
Amortization	338	480	676	960
Stock-based compensation	172,362	119,560	225,422	232,623
	(203,390)	(160,695)	(360,215)	(240,792)
Changes in non-cash working capital components				
Accounts receivable	69,979	(8,871)	32,315	(8,288)
Prepaid expenses	(26,921)	-	(23,421)	5,000
Accounts payable and accrued liabilities	152,251	(90,030)	122,231	407
Tender security deposits	(647,438)	-	(647,438)	-
Payable to related party	17,852	-	(15,135)	-
	(637,667)	(259,596)	(891,663)	(243,673)
Investing Activities				
Power project expenditures	(1,285,570)	(291,875)	(1,947,707)	(825,174)
	(1,285,570)	(291,875)	(1,947,707)	(825,174)
Financing Activities				
Common shares issued for cash	671,400	36,000	3,287,800	58,750
Share issue costs	(977)	-	(15,476)	-
	670,423	36,000	3,272,324	58,750
INCREASE (DECREASE) IN CASH	(1,252,814)	(515,471)	432,954	(1,010,097)
CASH, BEGINNING OF PERIOD	1,705,963	1,428,798	20,195	1,923,424
CASH, END OF PERIOD	453,149	913,327	\$ 453,149	\$ 913,327

Supplementary Information on Non-Cash Transactions

Shares issued for acquisition of subsidiary company	-	-	\$	-	\$	106,261
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PLUTONIC POWER CORPORATION

Interim Consolidated Statement of Power Projects For the Six Months Ended June 30, 2006 (unaudited)

	East Toba / Montrose	Rainy River	Hope Projects	Other	Total
Balance, December 31, 2005	\$1,899,476	\$440,092	\$544,869	\$954,255	\$3,838,692
Engineering and hydrology	1,112,332	122,381	102,015	119,284	1,456,012
Permitting	49,294	5,963	9,113	53,366	117,736
Community relations	243,146	23,235	-	-	266,381
Bid costs	64,900	27,410	5,268	-	97,578
Other	10,000	-	-	-	10,000
Balance, June 30, 2006	\$3,379,148	\$619,081	\$661,265	\$1,126,905	\$5,786,399

PLUTONIC POWER CORPORATION

Notes to Interim Consolidated Financial Statements

June 30, 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, to finance the construction and to secure 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 direct 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

June 30, 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

June 30, 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 from and presented subsequently by the vendors, 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 gigawatt hours of energy per year to be generated on each of these projects.

PLUTONIC POWER CORPORATION

Notes to Interim Consolidated Financial Statements

June 30, 2006

(unaudited)

4. POWER PROJECTS

To-date, the Company has incurred and capitalized 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 702 gigawatt hours. 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 ("EAO") for these two power projects. This is the sixth stage in the eight stage EAO environmental permitting process. The review of the application has a legislated maximum 180 day period at which point an assessment report by the EAO is prepared and the application is referred to the applicable provincial Ministers offices. Following 45 day ministerial review, an Environmental Assessment Certificate could be issued to the Company. The Company anticipates receiving a decision on the issuance of an Environmental Assessment Certificate during Q3/Q4-2006.

In April 2006, the Company entered these two power projects into the F2006 BC Hydro Call for Tenders and posted a letter of credit effective until October 2006. The letter of credit is secured against cash security deposit.

In July 2006, BC Hydro awarded an Energy Purchase Agreement ("EPA") for the supply of 702 gigawatt hours of energy per year over a 35 year term. In August 2006, the Company posted a \$11.8 million performance bond together with a fully executed EPA with BC Hydro.

In August 2006, the Company granted a Canadian affiliate of GE Energy Financial Services ("GE") the exclusive right to provide Cdn\$100 million of project equity as well as lead a \$400 million debt financing for construction of the East Toba and Montrose project.

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 of energy 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.

PLUTONIC POWER CORPORATION

Notes to Interim Consolidated Financial Statements

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(unaudited)

4. **POWER PROJECTS (continued)** **Rainy River, Howe Sound Project (continued)**

In August 2005, the Company initiated stages 3 and 4 of the Environmental permitting process by submitting a Waterpower Project Development Plan (“WPDP”) to land and Water British Columbia (“LWBC”). The WPDP fully describes the Project and it is provided for Government, First Nations and stakeholder review. The Company anticipates this review process will be completed during the second half of 2006 at which time the regulatory agencies will make a decision, subject to Ministry review, regarding the issuance to the Company of a Water Licence and Crown Land Tenure.

In April 2006, the Company entered this power project into the F2006 BC Hydro Call for Tenders and posted a letter of credit effective until October 2006. The letter of credit is secured against cash security deposit.

In July 2006, BC Hydro awarded an Energy Purchase Agreement for the supply of 51 gigawatt hours of energy per year over a 35 year term. In August 2006, the Company posted a \$0.9 million performance bond together with a fully executed EPA with BC Hydro.

In August 2006, the Company granted GE the right to match any equity investment offer that the Company receives for the Rainy River project as part of the transaction with GE on the East Toba and Montrose project.

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 and posted a letter of credit effective until October 2006. The letter of credit is secured against cash security deposit. The Company did not receive an Energy Purchase Agreement from BC Hydro. The Company will continue to advance this project and will attempt to secure a future power contract for this project.

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.

Green Power Corridor

The Green Power Corridor (GPC) Phases II-V consists of ten projects located at the headwaters of Bute and Toba Inlets with an installed capacity of 550 MW with expected generation of approximately 1,700 gigawatt hours of energy per year.

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Notes to Interim Consolidated Financial Statements

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(unaudited)

5. EQUIPMENT

	Cost	Accumulated Amortization	June 30, 2006 Net Book Value	December 31, 2005 Net Book Value
Computer equipment	\$ 7,573	\$ 3,743	\$ 3,830	\$ 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 \$73,726 and \$41,612 respectively (2005 - \$75,795 and \$101,253, including bonuses) for these services for the three and six months ended June 30, 2006 and was owed \$52,697 (December 31, 2005 - \$67,832) at June 30, 2006. The amounts owed to this related company are non-interest bearing. Also see note 10.

7. 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
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
Transfer from contributed surplus on 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
Issued for cash from exercise of warrants	1,986,000	573,900
Issued for cash from exercise of options	150,000	97,500
Transfer from contributed surplus on exercise of vested options	-	49,500
Share issue costs	-	(977)
Balance, June 30, 2006	16,224,982	\$ 7,323,763

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Notes to Interim Consolidated Financial Statements

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7. SHARE CAPITAL (continued)

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.

459,750 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 (3,640,996) 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).

A summary of share option activity and information concerning outstanding and exercisable options at June 30, 2006 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
Options granted	551,750	\$1.65
Options exercised	(150,000)	\$0.65
Balance, June 30, 2006	3,042,500	\$0.72

Subsequent to June 30, 2006, the Company granted to a new director, new officer and new employees options to purchase 340,000 common shares of the Company, exercisable at \$1.63 per common share and options to purchase 200,000 common shares, exercisable at \$2.12 per common share. Options to purchase 262,500 common shares at \$0.32 per share and 3,000 common shares at \$0.75 per share were exercised

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Notes to Interim Consolidated Financial Statements

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(unaudited)

7. SHARE CAPITAL (continued)

The following table summarizes information concerning outstanding and exercisable options at June 30, 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	2.19		611,250	\$0.20
May 17, 2004	May 17, 2009	669,500	\$0.32	2.88		669,500	\$0.32
Nov 23, 2004	Nov 23, 2009	600,000	\$0.75	3.40		600,000	\$0.75
Sept 1, 2005	Sept 1, 2010	150,000	\$0.80	4.18		75,000	\$0.80
Mar 27, 2006	Mar 27, 2011	160,000	\$0.80	4.74		40,000	\$0.80
Mar 31, 2006	Mar 31, 2011	300,000	\$0.80	4.75		-	\$0.80
June 7, 2006	June 7, 2011	551,750	\$1.65	4.94		137,937	\$1.65
		3,042,500	\$0.72	3.57		2,133,687	\$0.52

The weighted average grant-date fair value of stock options granted during the three and six months ended June 30, 2006 was \$1.22 and \$0.92 respectively. 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% to 126%
Expected dividend yield	Nil

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
502,000	\$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 \$1.75	Until March 28, 2007 Until March 29, 2008	March 28, 2006
3,416,770			

Subsequent to June 30, 2006, the Company issued 177,735 common shares pursuant to the exercise of warrants for cash proceeds of \$186,044.

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Notes to Interim Consolidated Financial Statements

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(unaudited)

7. SHARE CAPITAL (continued)

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)
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Balance, December 31, 2005		566,140
Share-based compensation expense		225,422
Transfer to share capital on exercise of vested options		(49,500)
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Balance, June 30, 2006	\$	742,062

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.

10. OTHER SUBSEQUENT EVENTS

Subsequent to June 30, 2006, to finance the issuance of \$12,760,000 in performance bonds as part of the EPA requirement with BC Hydro, the Company issued debt instruments totalling \$9,700,000 (including \$1,150,000 from Directors and Officers of the Company) to a private group of investors (the "Investors"). GE provided the Company with \$2,500,000 in credit support. The Investors were issued 150,000 warrants per million dollars received and GE received 375,000 two year common share purchase warrants with an exercise price of \$2.50 per share. GE and the Investors will be paid an annual interest rate of 10% for the first 60-day period and 13% thereafter.