

Plutonic
POWER CORPORATION



PLUTONIC POWER CORPORATION

Interim Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007

(unaudited)

(Expressed in Canadian dollars)

PLUTONIC POWER CORPORATION

Consolidated Balance Sheets

	June 30 2008	December 31 2007
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 48,926,419	\$ 43,400,385
Cash restricted for use in construction activities (note 9(d))	14,807,066	8,073,186
Amounts receivable	27,116	280,363
GST recoverable	1,077,038	1,705,167
Interest receivable	7,780	3,106
Prepaid expenses	319,928	373,416
	65,165,347	53,835,623
Performance security deposits	270,000	160,000
Prepaid guarantee fee (note 4)	1,030,810	1,325,328
Builder's lien holdback deposit account (note 5)	4,127,944	2,994,755
Investment (note 6(e))	3,614,647	-
Power project development costs (note 6)	14,533,413	10,255,741
Property, plant and equipment (note 7)	73,152,701	37,055,397
Intangible assets (note 8)	5,198,455	5,023,102
	\$ 167,093,317	\$ 110,649,946
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 24,643,933	\$ 3,328,533
Accrued interest and fees payable (note 9(a))	211,162	77,480
Due to related parties	-	16,884
	24,855,095	3,422,897
Builder's lien holdback payable (note 5)	6,416,932	3,016,743
Long-term debt (note 9)	39,033,906	8,061,910
Interest rate swap contracts (note 10)	4,498,634	2,881,176
Deferred gain on transfer of assets (note 3)	15,494,626	15,494,626
	90,299,193	32,877,352
Non controlling interest (note 3)	16,825,808	15,906,988
Shareholders' equity:		
Share capital (note 12)	67,132,024	64,014,533
Contributed surplus (note 13)	12,927,666	11,495,848
Deficit	(20,091,374)	(13,644,775)
	59,968,316	61,865,606
Commitments (note 3)		
Subsequent events (note 12(d) and note 16)		
	\$ 167,093,317	\$ 110,649,946

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"Donald A. McInnes" Director

"R. Stuart Angus" Director

PLUTONIC POWER CORPORATION

Consolidated Statements of Operations and Comprehensive Loss

For the three and six month periods ended June 30, 2008 and 2007
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Expenses:				
Amortization	\$ 8,868	\$ 5,202	\$ 16,916	\$ 9,394
Consulting	81,416	-	148,225	-
Guarantee fees (note 4)	372,259	-	744,518	-
Management fees	-	14,773	-	27,122
Office	100,117	77,761	160,693	132,101
Professional fees	136,539	57,032	187,076	89,728
Project evaluation	35,144	130,695	49,447	130,695
Rent	81,049	58,510	139,153	105,153
Salaries	703,860	282,330	1,227,552	537,198
Share-based compensation	1,045,942	2,056,690	2,038,416	2,243,121
Transfer agent and listing fees	67,822	178,303	123,698	198,746
Travel and promotion	434,802	204,501	690,731	398,369
Loss before the undernoted	(3,067,818)	(3,065,797)	(5,526,425)	(3,871,627)
Other income (expenses):				
Interest income	299,982	361,565	725,841	511,035
Loss on fair value adjustment of interest rate swaps (note 10)	(918,499)	-	(1,646,015)	-
	(618,517)	361,565	(920,174)	511,035
Net loss for the period	(3,686,335)	(2,704,232)	(6,446,599)	(3,360,592)
Other comprehensive income:				
Unrealized gain on marketable securities	-	157,500	-	237,750
Comprehensive loss for the period	\$ (3,686,335)	\$ (2,546,732)	\$ (6,446,599)	\$ (3,122,842)
Basic and fully diluted loss per share	\$ (0.09)	\$ (0.07)	\$ (0.15)	\$ (0.10)
Weighted average number of shares outstanding	42,155,947	38,024,453	41,777,618	34,430,622

See accompanying notes to consolidated financial statements.

PLUTONIC POWER CORPORATION

Consolidated Statements of Deficit

For the six month periods ended June 30, 2008 and 2007
(unaudited)

	2008	2007
Deficit, beginning of period	\$ (13,644,775)	\$ (2,999,863)
Net loss for the period	(6,446,599)	(3,360,592)
Deficit, end of period	\$ (20,091,374)	\$ (6,360,455)

Statements of Accumulated Other Comprehensive Income

For the six month periods ended June 30, 2008 and 2007

	2008	2007
Accumulated other comprehensive income, beginning of period	\$ -	\$ 21,000
Unrealized gain on marketable securities	-	237,750
Accumulated other comprehensive income, end of period	\$ -	\$ 258,750

See accompanying notes to consolidated financial statements.

PLUTONIC POWER CORPORATION

Consolidated Statements of Cash Flows

For the three and six month periods ended June 30, 2008 and 2007
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Cash provided by (used in):				
Operating activities:				
Net loss for the period	\$ (3,686,335)	\$ (2,704,232)	\$ (6,446,599)	\$ (3,360,592)
Items not affecting cash:				
Amortization expense	8,868	5,202	16,916	9,394
Share-based compensation expense	1,045,942	2,056,690	2,038,416	2,243,121
Share-based compensation expense for consultants	-	48,566	-	71,824
Prepaid guarantee fee amortization	147,259	-	294,518	-
Unrealized loss on fair value adjustment of interest rate swaps	895,136	-	1,617,458	-
	(1,589,130)	(593,774)	(2,479,291)	(1,036,253)
Changes in non-cash working capital:				
Amounts receivable	36,634	(40,566)	253,247	(381,102)
GST recoverable	(663,082)	-	628,129	-
Interest receivable	1,090	(107,703)	(4,674)	(214,174)
Prepaid expenses	52,771	(978)	(14,976)	6,642
Accounts payable and accrued liabilities	16,992,704	(3,185,296)	21,315,400	1,100,544
Accrued interest and fees payable	72,933	-	133,682	-
Due to related parties	56,441	40,371	37,485	(6,877)
Adjustment for non-cash working capital relating to power project development costs and property, plant and equipment	(16,599,771)	3,557,039	(22,205,732)	(764,687)
	(1,639,410)	(330,907)	(2,336,730)	(1,295,907)
Investing activities:				
Power project development costs	(3,917,085)	(10,593,158)	(5,710,823)	(13,682,179)
Intangible asset payments	24,591	-	(175,353)	-
Property, plant and equipment purchases	(11,921,323)	(14,320)	(15,220,908)	(86,783)
Performance security deposits	(68,000)	-	(110,000)	-
Builder's lien holdback deposit account	(501,431)	-	(1,133,189)	-
Builder's lien holdback payable	2,671,901	-	3,400,189	-
	(13,711,347)	(10,607,478)	(18,950,084)	(13,768,962)
Financing activities:				
Common shares issued for cash	577,543	32,519,336	1,641,816	34,490,775
Share issue costs	-	(1,906,075)	-	(1,905,992)
Long-term debt	20,223,023	-	30,971,996	-
Cash restricted for use in construction activities	2,045,005	-	(6,733,880)	-
Financing provided by joint equity partner of TMGP	(355,296)	-	932,916	-
	22,490,275	30,613,261	26,812,848	32,584,783
Increase in cash and cash equivalents	7,139,518	19,674,876	5,526,034	17,519,914
Cash and cash equivalents, beginning of period	41,786,901	4,025,231	43,400,385	6,180,193
Cash and cash equivalents, end of period	\$ 48,926,419	\$ 23,700,107	\$ 48,926,419	\$ 23,700,107
Cash and cash equivalents is comprised of:				
Cash of the Company			\$ 36,660,664	\$ 23,700,107
Company's proportionate interest in cash of TMGP			12,265,755	-
			\$ 48,926,419	\$ 23,700,107

Supplementary cash flow information (note 14)

See accompanying notes to consolidated financial statements.

PLUTONIC POWER CORPORATION

Consolidated Statements of Power Project Development Costs

For the six month periods ended June 30, 2008 and 2007
(unaudited)

	East Toba/ Montrose	Upper Toba Valley	Bute Inlet projects	Knight Inlet projects	Other projects	Rainy River & Hope projects	Total
Balance, December 31, 2006	\$ 9,481,959	\$ 616,867	\$ 271,170	\$ 121,280	\$ 301,861	\$ 2,181,362	\$12,974,499
Engineering and hydrology	3,010,067	743,104	2,246,900	193,879	201,630	661,826	7,057,406
Permitting	2,115,464	511,958	774,771	51,872	111,125	223,729	3,788,919
Community relations	1,231,891	8,725	185,754	4,072	1,153	25,871	1,457,466
Financing and tender bid costs	3,661,998	1,993	9,619	1,323	167	58,272	3,733,372
Contract costs:							
Salaries	4,148,212	-	-	-	-	-	4,148,212
Equipment and supplies	10,110,902	-	-	-	-	-	10,110,902
Transportation	2,596,270	-	-	-	-	-	2,596,270
Engineering	1,309,955	-	-	-	-	-	1,309,955
Administrative and other	822,702	10,500	45,500	10,500	3,500	-	892,702
Stock-based compensation	2,864,933	73,080	178,935	-	-	783,063	3,900,011
Fair value of warrants issued for financing	848,253	-	-	-	-	64,917	913,170
Consulting cost settled in shares	581,250	-	-	-	-	581,250	1,162,500
Less: prior year accrual	(547,500)	-	-	-	-	(547,500)	(1,095,000)
Project development costs written off	-	-	-	-	(40,144)	(418,143)	(458,287)
Recovery of costs from TMGP	(31,394,065)	-	-	-	-	-	(31,394,065)
Transfer to investment in TMGP	(10,842,291)	-	-	-	-	-	(10,842,291)
Balance, December 31, 2007	-	1,966,227	3,712,649	382,926	579,292	3,614,647	10,255,741
Engineering and hydrology	-	779,535	3,810,081	57,807	174,156	2,021	4,823,600
Permitting	-	576,625	1,036,545	5,143	372,759	1,513	1,992,585
Community relations	-	8,483	236,334	116	3,398	-	248,331
Financing and tender bid costs	-	13,487	40,037	-	-	-	53,524
Stock-based compensation	-	380,255	397,558	-	-	-	777,813
Sale of projects (note 6(e))	-	-	-	-	-	(3,618,181)	(3,618,181)
Balance, June 30, 2008	\$ -	\$ 3,724,612	\$ 9,233,204	\$ 445,992	\$1,129,605	\$ -	\$14,533,413

See accompanying notes to consolidated financial statements.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007
(unaudited)

1. Operations:

Plutonic Power Corporation, its wholly owned subsidiary companies, Plutonic Hydro Inc., Plutonic TMP Holdings Inc. and Upper Toba Hydro Inc. (collectively the Company) are incorporated in the Province of British Columbia, Canada. The Company's principal business operations are the identification, development, construction and ultimately, the operation of economically viable clean power projects.

On June 27, 2007, the Company and its partner GE Energy Financial Services Holding Company (GE), formed Toba Montrose General Partnership (TMGP), a general partnership formed under the laws of the Province of British Columbia, to finance, build and operate the East Toba and Montrose run-of-river power projects, which are located at the headwaters of the Toba Inlet in British Columbia. The projects include separate generation facilities and a related 150 km transmission line to interconnect the generation facilities to a new British Columbia Transmission Corporation's substation to be located at Saltery Bay. These two generation facilities have a combined design capacity of 196 megawatts (MW) and are expected to generate on average 745 gigawatt hours (GWh) of electricity annually with completion of construction and commencement of electricity sale to British Columbia Hydro and Power Authority (BC Hydro) scheduled for 2010 under a 35 year Electricity Purchase Agreement (EPA).

2. Significant accounting policies:

(a) Basis of presentation:

The Company prepares its consolidated interim financial statements in accordance with Canadian generally accepted accounting principles on a basis consistent with those used and described in the annual consolidated financial statements for the year ended December 31, 2007 except as discussed in note 2(b). The disclosures contained in these consolidated interim financial statements do not include all the requirements of Canadian generally accepted accounting principles for annual financial statements, and accordingly, these consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the period ended December 31, 2007. Certain comparative figures have been restated to conform to the current period's financial statement presentation.

(b) Adoption of new accounting standards:

Effective January 1, 2008, the Company adopted three new Canadian Institute of Chartered Accountants (CICA) accounting standards: (i) Handbook Section 1535, *Capital Disclosures*; (ii) Handbook Section 3862, *Financial Instruments - Disclosures*; (iii) Handbook Section 3863, *Financial Instruments - Presentation*. The main requirements of these new standards and the resulting financial statement impact are described below.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007
(unaudited)

2. Significant accounting policies (continued):

(b) Adoption of new accounting standards (continued):

(i) Capital Disclosures (Section 1535):

Section 1535 specifies the disclosure of: (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and, (iv) if it has not complied, the consequences of such non-compliance.

As a result of the adoption of this standard, additional disclosure on the Company's capital management strategy have been included in Note 11 to the financial statements.

(ii) Financial Instruments - Disclosures (Section 3862) and Financial Instruments – Presentation (Section 3863):

Section 3862 and 3863 replace Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*, revising its disclosure requirements, and carrying forward its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Section 3862 specifies disclosures that enable users to evaluate: (i) the significance of financial instruments for the entity's financial position and performance; (ii) the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

As a result of the adoption of this standard, additional disclosures on the risks of certain financial instruments have been included in Note 11 to the financial statements. Sensitivity analyses have been included to reflect the risk of changes in market risks.

Section 3863 establishes standards for the presentation and classification of financial instruments and non-financial derivatives. The adoption of this standard did not have any impact on the classification or presentation of the Company's financial instruments.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007
(unaudited)

3. Investment in Toba Montrose General Partnership:

- (a) On October 26, 2007, the Company contributed the East Toba and Montrose projects and associated permits, licences, Impact Benefit Agreements (IBA) with the Klahoose and Sliammon First Nations and its EPA with BC Hydro to TMGP. Following the contribution, the Company received and currently holds 51 Class A Units of TMGP, representing a 51% non-participating, voting interest in the partnership and 100 Class B Units of TMGP, which are non-voting and participate in 40% of the distributions of TMGP. After 35 years of operations, the Company's economic interest associated with the Class B Units in TMGP will increase to 51% and its partner's economic interest in TMGP will decrease from 60% to 49%.

The estimated fair value of the intangible assets contributed by the Company to the Partnership was \$36.7 million. The Company has included in the consolidated financial statements its proportionate share of the original cost of the assets contributed and has deferred the \$15.5 million gain on contribution of these assets. The deferred gain will be amortized over the 35 year life of the BC Hydro EPA beginning in year 2010.

- (b) The Company's 40% economic interest in the assets, liabilities, revenue and expenses and cash flows of TMGP included in these consolidated financial statements are as follows:

	June 30 2008	December 31 2007
Cash	\$ 12,265,755	\$ 340,582
GST recoverable	916,750	743,297
Other current assets	234,485	300,467
Cash restricted for use in construction activities	14,807,066	8,073,186
Performance security deposits	270,000	160,000
Builder's lien holdback deposit account	4,127,944	2,994,755
Property, plant and equipment	72,972,245	36,951,835
Intangible assets	5,198,455	5,023,102
	110,792,700	54,587,224
Accounts payable and accrued liabilities	21,961,389	1,080,580
Accrued interest and fees payable	211,162	77,480
Builder's lien holdback payable	6,416,932	3,016,743
Long-term debt	39,033,906	8,061,910
Interest rate swap contracts	4,498,634	2,881,176
Non-controlling interest	16,825,808	15,906,988
	88,947,831	31,024,877
Net assets	\$ 21,844,869	\$ 23,562,347

	Six months ended June 30, 2008	Year ended Dec 31, 2007
Loss on fair value adjustment of interest rate swap contracts	\$ 1,646,015	\$ 2,881,176
Other expenses	71,851	15,789
Share of TMGP net loss	\$ 1,717,866	\$ 2,896,965
Cash flows from operating activities	\$ (100,408)	\$ (5,789)
Cash flows from investing activities	(13,145,450)	(37,622,778)
Cash flows from financing activities	25,171,032	37,969,148

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007
(unaudited)

3. Investment in Toba Montrose General Partnership (continued):

(b) Continued:

As the equity contributions recorded by TMGP are not in the same proportion as the relative economic interests of Plutonic and GE as at June 30, 2008, a non-controlling interest of \$16.8 million has been recorded which represents the amount by which GE's contributions have exceeded their 60% economic interest in the net assets of TMGP (December 31, 2007: \$15.9 million).

- (c) The Company is also required to contribute a further \$30 million in cash equity to TMGP on or before the earlier of the date TMGP's \$470 million senior debt facilities becomes fully drawn and November 1, 2010. The Company's cash equity contribution has been guaranteed to the senior debt facilities lenders by an affiliate of GE (note 4).
- (d) GE arranged for an affiliate of GE to provide a \$100 million equity bridge loan facility to TMGP, which was fully drawn as at June 30, 2008. In accordance with a subscription agreement between GE and TMGP, GE is contractually obligated to make a cash equity contribution whenever all or any portion of the principal amount under the equity bridge facility becomes due or payable (whether by mandatory prepayment, on maturity, by acceleration or otherwise). TMGP pays interest and fees to the GE affiliate on the equity bridge loan with a cumulative maximum amount of \$15 million being payable during construction. For the three months and six months ended June 30, 2008, TMGP had incurred \$1.0 million and \$2.2 million in interest and fees with respect to the equity bridge facility (three months and six months ended June 30, 2007: nil).
- (e) A GE affiliate has provided \$28 million of contingent equity and debt service reserve guarantees to the TMGP's debt providers. TMGP pays to the GE affiliate a 3% per annum fee on the amount of guarantees provided. If necessary, the Company and GE would be required to fund their pro-rata share of project cost overruns, if any. For three months and six months ended June 30, 2008, TMGP has paid or accrued fees of \$210,000 and \$420,000 in relation to this guarantee, of which the Company's proportionate interest is \$84,000 and \$168,000 (three months and six months ended June 30, 2007: nil).
- (f) A GE affiliate has provided an \$11.76 million letter of credit to BC Hydro as part of the EPA performance bonding requirements. TMGP pays the GE affiliate a 3% per annum fee on the face amount of the letter of credit. For three months and six months ended June 30, 2008, TMGP has paid or accrued fees of \$88,200 and \$176,400 in relation to the fee associated with this letter of credit, of which the Company's proportionate interest is \$35,280 and \$70,560 (three months and six months ended June 30, 2007: nil).
- (g) TMGP has the following commitments:
- (i) TMGP has an EPA with BC Hydro to supply 745 GWh of electricity annually for 35 years at fixed rates which escalate yearly. A GE affiliate, on behalf of TMGP, has posted a required \$11.76 million stand-by letter of credit to support performance bonding requirements of BC Hydro. If TMGP is late or unable to commence sale of electricity, it will be subject to penalties under the terms of the EPA.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007
(unaudited)

3. Investment in Toba Montrose General Partnership (continued):

(g) TMGP has the following commitments (continued):

(ii) TMGP has been granted land tenures and water licenses for the project sites, roads and transmission line from the Integrated Land Management Bureau and the British Columbia Ministry of the Environment. Provincial Environmental Certification from the British Columbia Environmental Assessment Office (EAO) was received in April 2007. The EAO certificate contains a number of commitments that TMGP must implement throughout various phases of the project, including mitigation measures to protect wildlife and areas of cultural significance to the Klahoose, Sliammon and Sechelt First Nations.

(iii) TMGP has a number of financial commitments over the life of the project, including periods beyond the 35 year term of the EPA, under the provisions of its IBA's with the Klahoose, Sliammon and Sechelt First Nations. These commitments include signing bonuses; construction access fees; continued access fees; project and training opportunities; and royalty payments.

The obligations of TMGP, except for the cost overrun and debt reserve guaranteed by the \$28 million letter of credit and the guarantee of Plutonic's \$30 million cash equity contribution, are non-recourse to the partners of TMGP.

4. Prepaid guarantee fee:

An affiliate of GE has provided a \$30 million guarantee to TMGP's senior debt lenders to support the Company's required \$30 million cash equity contribution (note 3(c)). During the year ended December 31, 2007, the Company issued to the GE affiliate 650,000 common share purchase warrants, with each warrant entitling the holder to purchase one common share of the Company at a price of \$9.03 per common share until October 26, 2009. The fair value of the warrants issued to the GE affiliate, as determined using a Black-Scholes pricing model, was \$1,423,500. This amount has been recorded as a prepaid guarantee fee and it is being amortized over the estimated 29 month period of the guarantee. Amortization of the prepaid guarantee fee for the three months and six months ended June 30, 2008 was \$147,259 and \$294,518 (three months and six months ended June 30, 2007: nil).

	June 30 2008	December 31 2007
Prepaid guarantee fee	\$ 1,423,500	\$ 1,423,500
Accumulated amortization	(392,690)	(98,172)
	<u>\$ 1,030,810</u>	<u>\$ 1,325,328</u>

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007
(unaudited)

4. Prepaid guarantee fee (continued):

In addition, the Company pays the GE affiliate a guarantee fee of 3% per annum on the face amount of the guarantee. For the three and six months period ended June 30, 2008, the Company paid \$225,000 and \$450,000 respectively in cash fees associated with the above guarantee (three months and six months ended June 30, 2007: nil). The Company has pledged its assets as security against the guarantee with the GE affiliate.

In exchange for providing the guarantee, the Company has also granted GE a right of first offer with respect to any contemplated equity financing by an investor of up to an additional 200 MW of hydroelectric projects under development by the Company and contemplated to be bid into the 2008 BC Hydro Clean Power Call Request for Proposals (BC Hydro RFP).

5. Builder's lien holdback deposit account:

In accordance with the terms of the Engineering, Procurement, and Construction (EPC) contract with Peter Kiewit Sons Co. (Kiewit) that TMGP has entered into for the construction of the East Toba and Montrose projects (note 7), payment of 10% of construction costs invoiced are heldback by TMGP for payment only upon completion of construction. TMGP is required to deposit funds in a builder's lien holdback bank account to fund the eventual payment of the amount held back over the course of the construction period. Funds in the builders lien holdback account (other than interest accrued) can only be disbursed on or after the 56th day following the issuance of a "certificate of completion" (as such term is defined in the *Builders Lien Act*).

6. Power project development costs:

The Company has incurred and capitalized direct costs on 40 run-of-river hydroelectric power development projects located primarily in the southwestern region of British Columbia. 37 of the sites are located within the Company's Green Power CorridorTM, located in the headwaters of the Toba, Bute and Knight Inlets, northeast of Powell River, British Columbia. During 2007, the East Toba River and Montrose Creek projects were transferred to TMGP (note 3).

In connection with the purchase of Plutonic Hydro Inc. in 2003, the Company is required to pay a one-time bonus within 30 days of the later of securing construction financing and the commencement of construction for power projects acquired from and identified subsequently by the vendor of Plutonic Hydro Inc. The bonus is payable in shares or cash at the Company's option. During the fourth quarter of 2007, the Company elected to pay in cash the required bonus of \$745,000 for the combined East Toba and Montrose project to the vendor.

During the second quarter of 2008, the Company entered into an agreement to extend its relationship 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 provides for the issuance of 100,000 common share purchase warrants to Knight Piesold exercisable at a price of \$7.93 for a period of two years and a bonus structure if any of the identified projects become commercially viable. The warrants were issued in May 2008.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the three and six month periods ended June 30, 2008 and 2007
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6. Power project development costs (continued):

The Company's principal power projects are as follows:

(a) East Toba and Montrose Power Project - Green Power Corridor™:

As discussed in note 3, the Company contributed the East Toba and Montrose projects to TMGP on October 26, 2007 and now proportionately consolidates its 40% economic interest in TMGP. Prior to the contribution of the projects to TMGP, the Company recorded all costs associated with the development of the projects as power project development costs.

In November 2007, TMGP reimbursed the Company \$31.4 million which related to project costs funded by the Company prior to the formation of TMGP and the completion of required project financing. The project costs reimbursed by TMGP included \$20.8 million related to costs incurred under limited notice to proceed EPC work orders, \$3.5 million for project development costs, \$2.8 million in project financing, \$1.5 million in insurance costs, \$1.0 million in land tenure license and lease payments, \$0.9 million in project management costs, \$0.8 million in First Nations payments, and \$0.1 million in payments related to BCTC interconnection costs and other expenditures.

(b) Upper Toba Valley projects - Green Power Corridor™:

The Upper Toba Valley area, with three power sites, is estimated to have a combined potential generation capacity of 133 MW and potential annual electricity generation of 466 GWh. These three sites are located near the headwaters of Toba Inlet, approximately 100 km north of Powell River, British Columbia.

During 2007, the Company successfully completed Stages 1 and 2 towards securing a Water License and Crown Land rights from the Integrated Land Management Bureau, Ministry of Agriculture and Lands (ILMB) and the Water Stewardship Division, Ministry of the Environment (MOE) for these three power sites.

Also during 2007, the Company submitted the Upper Toba Valley project to the EAO for the construction of three run-of-river generation facilities, each of which is located on Dalgleish Creek, Jimmie Creek and the Upper Toba River. The EAO issued a Section 10 order that binds the Upper Toba Valley project to the Environmental Assessment Act and a Section 11 order that sets the process the environmental assessment must follow. The Company expects to complete the permitting for the Upper Toba Valley project in early 2009.

The Company is conducting hydrological, engineering, environmental and permitting work on these power projects with the intention of entering them into the BC Hydro RFP, which was issued on June 11, 2008, with bids due by November 25, 2008.

The Company has the right to use any additional unused capacity of the transmission line being built for TMGP for the Company's wholly owned three additional sites that make up the Upper Toba Valley projects.

As a provision in the IBA with the Klahoose First Nation, in the event the Company obtains an EPA for the Upper Toba Valley project, the Klahoose First Nation will extend their support for the development of the project subject to receiving an Environmental Assessment Certificate from the EAO.

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6. Power project development costs (continued):

(c) Bute Inlet projects - Green Power Corridor™:

The Bute Inlet area encompassing 18 power sites have an estimated combined potential generation capacity of 914 MW and potential annual electricity generation of 2,980 GWh. Nine of these 18 sites were added during 2007.

During 2007, the Company successfully completed Stages 1 and 2 towards securing a Water License and Crown Land rights from ILMB and MOE for all of the new power sites added in 2007.

The Company is conducting hydrological, engineering, environmental and permitting work and is consulting with the communities, First Nations and other stakeholders on these power projects with the intention to enter a number or all of these power projects into the BC Hydro RFP.

During the second quarter of 2008, the Company has submitted its Bute Inlet Hydroelectric Project (Bute Project) into the Environmental Assessment Process. The EAO has issued a Section 10 order that binds the project to the Environmental Assessment Act.

An updated version of the Project Description was also submitted to the Canadian Environmental Assessment Agency (CEAA) and the new Major Projects Management Office (MPMO) on May 7, 2008.

The Bute Project proposal submitted to the EAO is for the construction of 18 run-of-river generating facilities, organized into three interconnected groups. Eight of the facilities will be located in or near the Homathko River system, seven in the Southgate River system and three in the Orford River system.

(d) Knight Inlet projects - Green Power Corridor™:

The Knight Inlet area, with six power sites, has an estimated combined potential generation capacity of 247 MW and potential annual electricity generation of 749 GWh. The Company is collecting on-going hydrological data at these six power sites.

(e) Rainy River and Hope projects:

On February 4, 2008, the Company sold the Rainy River and Hope area projects to AltaGas Income Trust (AltaGas). The transaction involved the sale of all hydrological and environmental data and engineering and permitting work completed over the last four years as well as the water license and attendant land tenure applications for the projects. As consideration, the Company received 180,433 non-transferable, non-participating special warrants of AltaGas. The special warrants convert to 180,433 trust units of AltaGas on January 1, 2010 for no additional consideration. The Company has estimated the fair value of these special warrants to be \$3.6 million, using the Black-Scholes option pricing model. At December 31, 2007, the Company wrote down the carrying value of the power project development costs related to the Rainy River and Hope projects to the estimated fair value of the consideration received from AltaGas, resulting in a write-down of \$418,143.

(e) Rainy River and Hope projects (continued):

The special warrants in AltaGas are considered an investment in restricted equity instruments that do not have a quoted market price in an active market and are classified as available for sale. After the initial fair value recognition of these special warrants, they are held at cost.

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6. Power project development costs (continued):

(f) Other projects:

(i) Europa Project:

In April 2005, the Company successfully completed Stages 1 and 2 towards securing a Water License and Crown Land rights from the Ministry of Environment and the Integrated Land Management Bureau for this project. In April 2006, the Company submitted the Europa Creek project into the British Columbia Environmental Assessment Permitting Process, with the EAO consequently issuing a Section 10 order binding the project to the Environmental Assessment Act.

Since 2005, the Company has been collecting hydrological data and carrying out engineering and cost estimating work on the project.

In May of 2008, the BC government introduced legislation to finalize the boundaries of conservancy areas in the central and north coast. These boundaries, and the conditions which preclude any type of power production, impact the Europa project. Clarification of BC government policy is ongoing.

(ii) Freda Project:

In August 2005, the Company successfully completed Stages 1 and 2 towards securing a Water License and Crown Land rights from Ministry of Environment and the Integrated Land Management Bureau for the development of this project.

Since 2005, the Company has been collecting hydrological data in order to better define the water resource at Freda Creek.

7. Property, plant and equipment:

			June 30 2008	December 31 2007
	Cost	Accumulated amortization	Net book value	Net book value
East Toba and Montrose				
assets under construction	\$ 72,972,245	\$ -	\$ 72,972,245	\$ 36,951,835
Computer equipment	108,358	25,664	82,694	57,792
Office equipment	102,371	11,834	90,537	37,270
Vehicle	10,000	2,775	7,225	8,500
	\$ 73,192,974	\$ 40,273	\$ 73,152,701	\$ 37,055,397

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7. Property, plant and equipment (continued):

A summary of the Company's proportionate interest in TMGP assets under construction is as follows:

	June 30 2008	December 31 2007
Engineering, procurement and construction costs	\$ 64,169,318	\$ 30,167,432
Development costs	1,400,000	1,400,000
BCTC interconnection costs	571,840	571,840
Land lease payments	73,654	46,560
Directly attributable project management costs	2,006,920	873,910
Directly attributable insurance costs	700,800	698,780
Capitalized net financing costs	4,049,713	3,193,313
	<u>\$ 72,972,245</u>	<u>\$ 36,951,835</u>

On September 17, 2007, TMGP executed a \$497 million fixed-price EPC contract with Kiewit for the construction of the 196 MW East Toba and Montrose run-of-river hydroelectric projects, which includes the development of two powerhouses with weirs, intakes, penstocks and generation equipment, a corresponding transmission line, and related development costs including access roads and bridges. As at June 30, 2008, TMGP had incurred or accrued for \$160.4 million under the terms of the EPC contract, of which the Company's proportionate share is \$64.2 million (December 31, 2007: \$75.4 million and \$30.2 million respectively).

On October 1, 2007, TMGP executed a facilities agreement and a transmission interconnection agreement with British Columbia Transmission Corporation (BCTC) to interconnect the East Toba and Montrose generation facilities once built to BCTC's transmission line. TMGP is required to fund a total of \$2,846,600 of the interconnection costs as follows:

- \$229,600 on signing (paid in 2007)
- \$1,200,000 by December 31, 2007 (paid in 2007)
- \$1,347,000 by December 31, 2008 and
- \$70,000 thereafter upon final reconciliation of costs

As at June 30, 2008, TMGP had incurred and capitalized \$11.0 million (December 31, 2007: \$8.0 million) in financing costs directly attributable to the construction of the East Toba and Montrose projects, which is offset by \$0.9 million of interest earned on investments for net financing costs of \$10.1 million. The capitalized amount includes an upfront fee of \$4.7 million (being 1% of the \$470 million long-term debt facilities) paid to the co-lead arrangers and lenders on the closing date of the long-term debt credit facility (note 9), \$0.8 million of interest and fees paid to GE affiliates for guarantees, letters of credit and financing provided to the partnership, \$2.5 million of interest and stand-by fees paid to the lenders in respect of the long-term debt (note 9), and \$3.0 million of legal fees and other costs directly associated with the financing. The Company's proportionate interest in the capitalized net financing costs is \$4.0 million.

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8. Intangible assets:

	June 30 2008	December 31 2007
Licenses, permits, IBA's, and EPA	\$ 4,336,917	\$ 4,336,917
Payments made to First Nations under terms of IBA's and prepaid land tenure license fees	861,538	686,185
	<u>\$ 5,198,455</u>	<u>\$ 5,023,102</u>

The East Toba and Montrose project's generation and associated facilities are being built within the traditional lands of the Klahoose First Nation and a significant portion of the transmission line being built linking the generation facilities to the BCTC grid is located within the traditional lands of the Sliammon and Sechelt First Nations. TMGP has IBAs' with the Klahoose, Sliammon and Sechelt First Nations to facilitate their support of the development of the East Toba and Montrose projects. These agreements were initially obtained by the Company and were contributed to the Partnership as part of Plutonic's initial equity contribution, except for the Sechelt IBA, which was executed by TMGP.

Prepaid land tenure license fees are amounts paid to the British Columbia government for access to, and use of, the rights-of-way where the transmission line for the East Toba and Montrose projects are being constructed. The licenses provide access to the rights-of-way for a term that is consistent with the EPA.

9. Long-term debt:

- (a) During 2007, TMGP engaged GE Capital Markets (Canada), Ltd., an affiliate of GE, and the Manufacturers Life Insurance Company to arrange the required debt financing for the East Toba and Montrose projects. The co-lead arrangers led a syndicate of financial institutions to provide TMGP with \$470 million in credit facilities.

On November 8, 2007 the credit agreement was executed and the following facilities were made available to TMGP:

- (i) 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 fixed rate facility). The interest rate on this credit facility is 6.288% per annum during the construction period and 6.173% thereafter. The construction period is defined in the credit facility agreement and includes the period through the date of commercial production, and for greater certainty, a period no later than March 1, 2011. As at June 30, 2008, the lenders had funded \$97.6 million under this credit facility, of which the Company's proportionate interest is \$39.0 million (December 31, 2007: \$20.2 million and \$8.1 million respectively).

PLUTONIC POWER CORPORATION

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9. Long-term debt (continued):

(ii) a \$100 million, 38-year senior secured credit facility with a 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 floating rate facility). GE Canada Asset Financing Holding Company (GE Lender) is providing \$50 million (50%) of the floating rate facility. The floating interest rate on this credit facility is based on one month Canadian dollar bankers' acceptance rates during the construction period, and the three month Canadian dollar bankers' 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, 2008, TMGP had not yet drawn from this credit facility.

Concurrently with the closing of this floating rate 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 (note 10).

A commitment fee, equal to 0.375% per annum multiplied by the amount not drawn on the \$470 million in total available credit, is charged and paid to the lenders on a monthly basis by TMGP.

The Company's proportionate interest in commitment fees and interest payable under the terms of the credit facilities at June 30, 2008 is \$211,162, of which \$6,250 is owed to GE Lender (December 31, 2007: \$77,480 and \$6,250 respectively).

In November 2007, TMGP paid an upfront financing fee to the co-lead arrangers and lenders of \$4.7 million, of which \$1.9 million was paid to a GE affiliate. The Company's proportionate interest in the upfront financing fee was \$1.9 million.

(b) Principal repayments:

Principal repayments for both credit facilities are to be made by TMGP annually until 2044 on the last business day of each fiscal year, commencing on December 31, 2011, based on a fixed repayment schedule, with a final principal payment being made on June 30, 2045. Interest is paid quarterly throughout the term of the credit facilities. Annual payments of interest and principal for the fixed rate facility average approximately \$26.1 million per annum over the term of repayment, of which the Company's proportionate interest is \$10.4 million. Annual payments of interest and principal for the floating rate facility average approximately \$7.6 million per annum over the term of repayment, of which the Company's proportionate interest is \$3.0 million. The Company's proportionate interest in the minimum principal payments over the next five years, assuming a draw down of the entire \$470 million credit facilities, are as follows:

2008	\$	-
2009		-
2010		-
2011		1,617,456
2012		1,720,333
2013 (to June 30)		-

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9. Long-term debt (continued):

(b) Principal repayments (continued):

Following the completion of construction, TMGP may, at its option and without penalty, prepay the applicable loan facilities in whole or in part. Prepayment of the fixed rate facility is subject to a "make-whole" payment. Prepayment of the floating rate facility is subject to the termination of TMGP's interest rate swap contracts in respect of a principal amount equal to the principal amount prepaid and the payment of any applicable termination amounts on the swap contracts.

(c) Security pledged:

The two credit facilities are secured by a first charge on all of the property and assets of TMGP, which have a carrying value of \$302.8 million at June 30, 2008 (December 31, 2007: \$162.3 million). The Company's proportionate share of TMGP's long term debt is non-recourse to the Company.

(d) Construction escrow account:

In accordance with the terms of the credit facilities, debt is drawn down by TMGP on a specific monthly schedule that commenced in November 2007. The funds are drawn into a restricted escrow construction account. On a monthly basis TMGP applies for funds to be released from the escrow account to pay for ongoing construction. At June 30, 2008, a total of \$37.0 million (December 31, 2007: \$20.2 million) was being held by TMGP in escrow of which the Company's proportionate interest is \$14.8 million (December 31, 2007: \$8.1 million). Funds held in escrow are invested in one month bankers' acceptances with yields at June 30, 2008 ranging from 3.05% per annum to 3.06% per annum. The construction escrow account is classified as a long-term asset as it is to be used exclusively to pay for the development and construction of the East Toba and Montrose projects.

10. Interest rate swap contracts:

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 agreement is effective from November 8, 2007 to November 1, 2010. Pursuant to the interest rate swap agreement, TMGP will receive interest on a notional amount at the one month Canadian dollar Bankers Acceptance Rate from the counterparty and will pay 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 is anticipated to be consistent with the drawings made on the \$100 million floating rate credit facility (note 9(a)(ii)). TMGP and the counterparty net settle the amount owing on a monthly basis commencing December 31, 2007.

The second interest rate swap agreement is effective from November 1, 2010 to June 30, 2045. 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 reduced in amounts based on the scheduled principal repayments on the \$100 million floating rate facility. TMGP and the counterparty net settle the amount owing on a quarterly basis commencing December 31, 2010.

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10. Interest rate swap contracts (continued):

Neither the Company nor TMGP have designated the interest rate swap contracts as hedges in accordance with CICA 3865, *Hedges*. As such, TMGP and the Company account for the interest rate swap contracts as derivative financial instruments and record the fair value of the two contracts on their balance sheets at each period end, with realized and unrealized gains or losses from the change in fair value recorded in the statement of operations.

The Company's proportionate interest in the fair value of the interest rate swap contracts have been reflected in the financial statements and represent a liability of \$4.5 million (December 31, 2007: \$2.9 million). For the three months and six months ended June 30, 2008, the Company incurred a realized loss of \$23,362 and \$28,556 and an unrealized loss of \$895,137 and \$1,617,459 on the interest rate contracts (three months and six months ended June 30, 2007: nil and nil respectively). The fair values were determined based on valuations obtained from the counter-party.

11. Financial instruments:

Financial instrument assets include cash and cash equivalents, cash restricted for use in construction activities, performance security deposits and builder's lien holdback account which are designated as held-for-trading and measured at fair value, and amounts receivable, GST recoverable and interest receivable which are designated as loans and receivables and measured at amortized cost. The Company's investment in special warrants are classified and measured as disclosed in note 6(e). Financial instrument liabilities include accounts payable and accrued liabilities, accrued interest and fees payable, due to related parties, builder's lien holdback payable and long-term debt. All financial liabilities are designated as other liabilities and are measured at amortized cost. Financial instruments of the Company also include the interest rate swap contracts which are derivative financial instruments (note 10).

(a) Fair values of financial instruments:

The carrying values of cash and cash equivalents, cash restricted for use in construction activities, performance security deposits, builder's lien holdback account, amounts receivable, GST recoverable, interest receivable, accounts payable and accrued liabilities, accrued interest and fees payable, and due to related parties approximate their fair values due to the relatively short period to maturity of the instruments. The carrying value of the builder's lien holdback payable is not materially different from its fair value. The fair value of the Company's proportionate interest in the fixed rate long-term debt facility is \$38.4 million, which approximates its carrying value of \$39.0 million as the market rates are substantially similar to the contractual rates. The interest rate swap contracts are carried at fair value as disclosed in note 10.

(b) Derivative financial instruments:

TMGP and the Company use interest rate swap contracts to assist in forward planning for the business as it relates to managing its exposure to fluctuations in interest rates over the 38 year period of the long-term credit facility. TMGP and the Company do not expect any credit losses in the event of non-performance by the counterparty to the interest rate swap contracts as the counterparty is TMGP's bankers, a major Canadian financial institution.

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11. Financial instruments (continued):

(c) Financial risk management:

The Company's Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in response to the Company's activities. Through its standards and procedures, management has developed a disciplined and constructive control environment in which all employees understand their roles and obligations. Management regularly monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

The Company has exposure to credit, liquidity and market risks from its use of financial instruments.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises mainly from its receivables and its various cash and cash equivalent instruments. The carrying amount of these assets (approximately \$69.6 million) represents the Company's maximum exposure to credit risk. There has been no change to the Company's credit risk from the prior year. The Company only carries amounts receivable due to an arrangement whereby the Company pre-pays for shared costs and is reimbursed for these costs from a third party. The Company does not expect any third parties to fail to meet their obligations, nor has the Company incurred any credit losses on such receivables over the past few years. The Company has no financial assets that are past due and has no allowance for doubtful accounts at either June 30, 2008 or December 31, 2007.

The Company and TMGP limit their exposure to credit risk arising from cash equivalents by only investing in short term bankers' acceptances and cashable guaranteed investment certificates with a major Canadian financial institution.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet obligations associated with financial liabilities and commitments as they become due. The Company manages liquidity risk through the management of its capital structure and financial leverage. It also continuously monitors actual and projected cash flows. The Company believes that future cash flows generated through access to capital and banking markets will be adequate to meet its financial obligations. The Company's overall liquidity risk has not changed significantly from December 31, 2007.

The following table details the contractual maturities at the balance sheet date of the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payment computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Company can be required to pay.

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11. Financial instruments (continued):

(c) Financial risk management (continued):

\$ thousands	Carrying Amount	Total	More than	More than	More than	
		Contractual Undiscounted Cash Flows	Within 1 Year or on Demand	1 Year but less than 2 Years		2 years but less than 5 Years
Accounts payable and accrued liabilities	24,644	(24,644)	(24,644)	-	-	-
Builder's lien holdback payable	6,417	(6,417)	-	-	(6,417)	-
Long-term debt	39,034	(101,640)	(2,454)	(2,454)	(2,432)	(94,300)
Interest rate swap (net settled)	4,499	(20,426)	(310)	(572)	(2,375)	(17,169)
Total	74,594	(153,127)	(27,408)	(3,026)	(11,224)	(111,469)

Currency risk

Currency risk is the risk that changes in foreign exchange rates will affect the fair value or future cash flows of the Company's financial instruments. The Company's financial instruments are not exposed to changes in foreign exchange rates. The Company's overall currency risk has not changed from December 31, 2007.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect the fair value or future cash flows of the Company's financial instruments. The Company is exposed to interest rate risk through its cash and cash equivalents and its proportionate share of TMGP's long-term debt and interest rate swap instruments (note 10).

At June 30, 2008 and December 31, 2007, the Company's interest-bearing financial instrument assets that have an impact on the Company's net earnings are:

	Carrying amount	
	June 30, 2008	December 31, 2007
Cash and cash equivalents	\$ 48,926,419	\$ 43,400,385

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11. Financial instruments (continued):

(c) Financial risk management (continued):

The Company's proportionate interest in cash restricted for use in construction activities, performance security deposits and builders' lien holdback deposit account are subject to interest rate risk. However, interest income from these investments is capitalized to property, plant and equipment as part of the net financing cost of assets under construction and, as such, fluctuations in interest rates for these financial instruments would not have impacted equity or earnings.

Based on the balances as at June 30, 2008, a change of 100 basis points (BPS) would have changed equity and interest income by \$0.2 million for the six month period ended June 30, 2008 (\$0.1 million for the three month period ended June 30, 2008).

At June 30, 2008 and December 31, 2007, the Company's interest-bearing financial liabilities are as follows:

	Carrying amount	
	June 30, 2008	December 31, 2007
Fixed rate instruments		
Fixed rate debt (note 9(a)(i))	\$ (39,033,906)	\$ (8,061,910)
Variable rate instruments		
Floating rate debt (note 9(a)(ii))	\$ -	\$ -
Interest rate swaps (note 10)	\$ (4,498,634)	\$ (2,881,176)

The Company does not account for the fixed rate debt as held for trading. Therefore, a change in interest rates at the reporting date would not affect net earnings or equity with respect to this fixed rate instrument.

For the variable rate instruments, a change of 100 BPS in interest rates at the reporting date would have increased (decreased) net earnings and equity by the amounts shown below. The cash flow sensitivity is based on the amount of the actual floating rate debt drawn and the interest rate swap contracts outstanding at June 30, 2008. If the amount of the floating rate debt had been drawn and matched the corresponding notional amount under the interest rate swap, the cash flow impact would have been nil. This analysis is performed on the same basis for 2007.

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11. Financial instruments (continued):

(c) Financial risk management (continued):

	Net earnings increase (decrease)		Equity increase (decrease)	
	100 BPS increase	100 BPS decrease	100 BPS increase	100 BPS decrease

Variable rate instruments

June 30, 2008

Variable rate debt	\$ -	\$ -	\$ -	\$ -
Interest rate swap contracts	5,540,962	(6,941,025)	5,540,962	(6,941,025)
Cash flow from interest rate swap contracts	6,796	(6,796)	6,796	(6,796)

December 31, 2007

Variable rate debt	\$ -	\$ -	\$ -	\$ -
Interest rate swap contracts	5,120,170	(6,445,803)	5,120,170	(6,445,803)
Cash flow from interest rate swap contracts	866	(866)	866	(866)

(d) Capital Structure and Management

The Company's capital structure is comprised of shareholders' equity plus its proportionate share of TMGP's long term debt. The Company's objectives when managing its capital structure are to:

- 1) minimize dilution to existing equity shareholders of the Company in its development of its power projects until the Company can generate sufficient cash flow to finance its growth internally; and
- 2) maintain financial flexibility so as to preserve the Company's access to capital markets and its ability to maintain its financial obligations.

The Company manages its capital structure and makes adjustments according to market conditions to maintain flexibility while achieving the objectives stated above. To manage the capital structure, the Company may adjust the timing of the development of its power projects or enter into joint ventures to finance some or all of the project equity requirements.

The Company's capital management objectives have not changed from December 31, 2007. At June 30, 2008 neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements. The Company's proportionately consolidated partnership, TMGP, will be subject to certain financial covenants in its credit facility agreement once the Toba Montrose generation facilities become operational in 2010.

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12. Share capital:

- (a) Authorized
100,000,000 common shares without par value
10,000,000 preferred shares without par value, issuable in series
- (b) Common shares - Issued and outstanding:

	Number of shares	Amount
Balance, December 31, 2006	30,455,002	\$ 27,873,654
Issued for cash from private placement	7,100,000	32,305,000
Share issue costs	-	(2,082,764)
Issued for cash on exercise of warrants	1,826,141	2,926,501
Issued for cash from exercise of options	782,850	773,582
Issued per terms of a termination agreement	250,000	1,162,500
Transfer from contributed surplus on exercise of vested options	-	702,242
Transfer from contributed surplus on exercise of vested warrants	-	353,818
Balance, December 31, 2007	40,413,993	64,014,533
Refund of share issue costs	-	500
Issued for cash on exercise of warrants	196,875	457,031
Issued for cash from exercise of options	1,617,900	1,184,285
Transfer from contributed surplus on exercise of vested options	-	1,475,675
Balance, June 30, 2008	42,228,768	\$ 67,132,024

In April 2007, the Company closed a \$32,305,000 bought deal private placement equity financing co-led by Orion Securities Inc. and Cormark Securities Inc. and including Scotia Capital Inc. and Toll Cross Securities Inc. by which it sold 7,100,000 common shares of the Company at \$4.55 per common share. The Company received \$30,404,280 net of underwriters' commission of \$1,776,775 (5.5% on gross cash proceeds) and other share issue costs.

In April 2007, the Company agreed to issue 250,000 units, with each unit comprised of one common share and one-half of one common share purchase warrant, to a consultant as part of the termination of a consulting agreement. Each whole warrant is exercisable into a common share of the Company at an exercise price of \$4.65 per share and is exercisable for a two year period. The shares were valued based on the closing price of the shares on the date of the agreement and the warrants were valued at \$153,375 using an option pricing model assuming a risk-free rate of 4%, an expected life of one year, expected volatility of 63% and expected dividend yield of nil. The value of the shares and warrants issued was capitalized to power project development costs during the year ended December 31, 2007.

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12. Share capital (continued):

(c) Share purchase warrants:

The continuity of share purchase warrants during the six months ended June 30, 2008 is as follows:

Expiry date	Exercise price	Balance Dec 31, 2007	Issued	Exercised	Expired	Balance, June 30, 2008
March 28, 2008	\$1.75	46,875	-	(46,875)	-	-
August 29, 2008	\$2.50	1,830,000	-	(150,000)	-	1,680,000
November 9, 2008	\$2.00	206,985	-	-	-	206,985
October 26, 2009	\$9.03	650,000	-	-	-	650,000
May 13, 2010	\$7.93	-	100,000	-	-	100,000
		2,733,860	100,000	(196,875)	-	2,636,985

The continuity of share purchase warrants during the year ended December 31, 2007 is as follows:

Expiry date	Exercise price	Balance Dec 31, 2006	Issued	Exercised	Expired	Balance, Dec 31, 2007
March 28, 2008	\$1.75	1,456,250	-	(1,409,375)	-	46,875
August 29, 2008	\$2.50	1,830,000	-	-	-	1,830,000
November 9, 2008	\$2.00	498,751	-	(291,766)	-	206,985
May 14, 2009	\$4.65	-	125,000	(125,000)	-	-
October 26, 2009	\$9.03	-	650,000	-	-	650,000
		3,785,001	775,000	(1,826,141)	-	2,733,860

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12. Share capital (continued):

(d) Stock options:

The Company grants stock options to directors, officers and employees of the Company and persons who provide ongoing services to the Company under an incentive stock option plan dated May 3, 2004 and amended on May 16, 2006. The Company had reserved 3,640,996 common shares for issue under this incentive stock option plan. As of November 14, 2006, the Company had granted the entire amount available under this plan. In May 2007, the Company received shareholder approval at its annual general shareholder meeting for the amendment of the incentive stock option plan to increase the number of common shares available for issue from 3,640,996 to 6,000,000. As of December 31, 2007, the Company had granted the entire number of common shares available for issue under this plan.

On May 14, 2008, the Company approved a new rolling Incentive Stock Option Plan (Rolling Plan). The Rolling Plan is a "rolling" stock option plan rather than a "fixed number" stock option plan, which provides that the maximum number of options which may be granted under the Rolling Plan will be equal to 10% of the number of shares of the Company which may be outstanding from time to time. Any exercise of options will make new grants available under the Rolling Plan, effectively resulting in a re-loading of the number of options available for grant under the Rolling Plan.

Of the options outstanding at the time of the Rolling Plan approval, 2,112,250 were carried over under the Rolling Plan and the rest remained subject to the old plan. No further options will be granted under the old plan. However, the old plan will continue in effect until the options retained under the old plan have been exercised, terminated or expired.

The exercise price of stock options under the incentive stock option plan is no less than the closing price of shares on the business day immediately preceding the date on which the option is granted. A number of options vest at the rate of 25% on the date of the grant and 25% every six months thereafter. A number of options vest over three years, with 1/3 of the grant vesting at the end of each completed year from the date of grant. The remaining options, based on the Company's current policy, vest over three years, with 1/3 of the grant vesting at the end of the first year, and the remaining 2/3 of the grant vesting on a monthly basis over the remaining 24 months. Options expire no later than five years from the grant date, except that they expire within 60 days when the holder is no longer qualified to hold the option (other than for cause, when the option expires immediately).

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12. Share capital (continued):

(d) Stock options (continued):

A summary of share option activity and information concerning outstanding and exercisable options at June 30, 2008 and December 31, 2007 is as follows:

	Options granted	Weighted average exercise price
Balance, December 31, 2006	3,512,500	1.03
Options granted - approved	2,615,000	4.70
Options exercised	(782,850)	0.99
Options cancelled	(412,500)	3.91
Balance, December 31, 2007	4,932,150	2.74
Options granted - approved	970,000	7.70
Options exercised	(1,617,900)	0.73
Options cancelled	(90,000)	7.39
Balance, June 30, 2008	4,194,250	\$ 4.56

The following table summarizes information concerning outstanding and exercisable options at June 30, 2008:

Grant date	Expiry date	Number outstanding	Weighted average exercise price	Weighted remaining contractual life (in years)	Vested and exercisable	
					Number	Weighted average exercise price
May 17, 2004	May 17, 2009	62,500	\$0.32	0.88	62,500	\$0.32
Nov 23, 2004	Nov 24, 2009	134,000	\$0.75	1.40	134,000	\$0.75
Mar 27, 2006	Mar 27, 2011	100,000	\$0.80	2.74	100,000	\$0.80
June 7, 2006	June 7, 2011	357,000	\$1.65	2.94	357,000	\$1.65
July 10, 2006	July 10, 2011	190,000	\$1.63	3.03	190,000	\$1.63
July 25, 2006	July 25, 2011	150,000	\$2.12	3.07	150,000	\$2.12
Nov 14, 2006	Nov 14, 2011	8,000	\$2.10	3.38	8,000	\$2.10
Dec 18, 2006	Dec 18, 2011	74,000	\$2.80	3.47	74,000	\$2.80
Jan 17, 2007	Jan 17, 2012	7,500	\$2.95	3.55	-	\$2.95
Mar 27, 2007	Mar 26, 2012	350,000	\$4.20	3.74	262,500	\$4.20
Mar 28, 2007	Mar 27, 2012	1,321,250	\$4.25	3.74	988,125	\$4.25
Apr 20, 2007	Apr 19, 2012	230,000	\$5.28	3.81	172,500	\$5.28
May 14, 2007	May 13, 2012	100,000	\$7.28	3.87	75,000	\$7.28
May 22, 2007	May 21, 2012	150,000	\$7.30	3.89	50,000	\$7.30
Jul 11, 2007	Jul 10, 2012	27,500	\$7.80	4.03	-	\$7.80
Sept 13, 2007	Sept 12, 2012	47,500	\$6.90	4.21	-	\$6.90
Apr 15, 2008	Apr 14, 2013	885,000	\$7.70	4.79	-	\$7.70
		4,194,250	\$4.56	2.70	2,623,625	\$3.34

As at June 30, 2008, there were 1,207,000 options outstanding under the old stock option plan and 2,987,250 under the rolling plan.

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12. Share capital (continued):

(d) Stock options (continued):

On April 15, 2008, the Company granted 970,000 stock options at an exercise price of \$7.70 per share to employees of the Company. These grants were approved by shareholders on May 14, 2008. The weighted average approval-date fair value of stock options granted during both the three and six month periods ended June 30, 2008 was \$4.15. The weighted average grant-date fair value of stock options granted during both the three and six month periods ended June 30, 2007 was \$4.59. The Company determines the fair value of the options granted using the Black-Scholes option pricing model, recognizing forfeitures as they occur, using the following weighted average assumptions:

	2008
Risk-free interest rate	3.0% to 4.0%
Expected life	1.2 to 4.8 years
Expected volatility	38% to 66%
Expected dividend yield	Nil

Subsequent to June 30, 2008 and through to August 8, 2008, 18,000 options and 487,500 warrants were exercised for cash proceeds of \$73,000 and \$1,218,750 respectively.

13. Contributed surplus:

Balance, December 31, 2006	\$ 2,250,761
Share-based compensation expense	3,785,883
Fair value of options issued to consultants	96,540
Fair value of options and warrants capitalized to power project costs	4,813,181
Fair value of warrants issued with respect to guarantee fees (note 5)	1,423,500
Fair value of compensation warrants issued for equity financing	182,043
Transfer to share capital on exercise of vested options	(702,242)
Transfer to share capital on exercise of warrants	(353,818)
Balance, December 31, 2007	11,495,848
Share-based compensation expense	2,038,416
Fair value of options and warrants capitalized to power project costs	777,813
Fair value of options capitalized to property, plant and equipment	91,264
Transfer to share capital on exercise of vested options	(1,306,175)
Transfer to share capital on exercise of warrants	(169,500)
Balance, June 30, 2008	\$ 12,927,666

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14. Supplemental cash flow information:

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Supplementary information:				
Interest and fees paid	\$ 457,495	\$ 74,794	\$ 748,758	\$ 148,767
Interest received	467,727	253,862	1,035,084	296,861
Non-cash transactions:				
Fair value of options and warrants for financing of power projects	123,500	-	123,500	1,519,870
Fair value of options and warrants capitalized to power project development costs	381,953	2,089,837	654,313	2,252,021
Fair value of compensation warrants issued for equity financing	-	-	-	182,044
Accrued interest capitalized to power projects	-	74,794	-	148,767
Fair value of options for TMGP employees capitalized to property, plant and equipment	32,478	-	91,264	-
Sale of Rainy River and Hope projects for special warrants in AltaGas	-	-	3,614,647	-
Shares issued for settlement agreement	-	1,162,500	-	1,162,500

15. Future Accounting Changes

a) International Financial Reporting Standards

The CICA has announced it will transition Canadian generally accounting principles (GAAP) for publicly accountable entities to International Financial Reporting Standards (IFRS). The Company's consolidated financial statements are to be prepared in accordance with IFRS for the fiscal year commencing January 1, 2011. The impact of the transition to IFRS on the Company's consolidated financial statements has not been determined.

b) Goodwill and Intangible Assets

Effective January 1, 2009, the Company will adopt new CICA Handbook Section 3064, *Goodwill and Intangible Assets*. This Section replaces CICA Handbook Section 3062, *Goodwill and Intangible Assets* and CICA Handbook Section 3450, *Research and Development Costs*, and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Company is still evaluating the impact of this standard on its consolidated financial statements.

16. Subsequent Events

On August 14, 2008, the Company and GE Energy Financial Services (GEFS) signed a memorandum of understanding to partner on a bid to develop approximately 1,000 MW of clean, run-of-river hydroelectric capacity in the Toba and Bute Inlets along the southwest coast of British Columbia. The approximate capital costs of these projects is estimated at \$4 billion.

The Company and GEFS intend to jointly bid the Upper Toba Valley and Bute Inlet Projects into the 2008 BC Hydro Clean Power Call Request for Proposals in November. Based on current assumptions, if the two entities' joint bid is accepted, GEFS intends to make an equity contribution of \$70 million for a 50% interest in the Upper Toba Valley Project and either by itself, or with other partners, an equity contribution of \$650 million for a 60% interest in the Bute Inlet Project. The final economic terms will be determined based on

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16. Subsequent Events (continued)

project variables including final capital cost, awarded energy price and estimates of power output. GEFS would also have the right to arrange debt financing for the projects. Prior to GEFS' equity contribution, the Company would be responsible for all costs of permitting, public consultation and environmental assessment certification. The Company may elect to repurchase a further 10% interest in the Bute Project by making a \$100 million equity contribution to capital costs.

Completion of the transactions is subject to such conditions as completion of satisfactory due diligence; finalization of satisfactory documentation; approval of investment committees and boards of directors; successful bids into BC Hydro's Clean Power Call Request for Proposals; senior debt financing for the projects; and regulatory approvals.

Upon successfully acquiring an energy purchase agreement for Upper Toba Valley Project and Bute Inlet Project with BC Hydro, GEFS would be granted one million and four million warrants respectively, with each warrant entitling GEFS to purchase one common share in the Company. The warrants would be exercisable at a price equal to the market price for the Company's common shares at the time they are issued, have a term of five years and would be subject to vesting provisions.