PLUTONIC POWER CORPORATION

THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2008

Management's Discussion & Analysis

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INTRODUCTION

This Management's Discussion and Analysis (MD&A) includes financial information from, and should be read in conjunction with, the unaudited interim consolidated financial statements of Plutonic Power Corporation ("Plutonic" or "the Company") for the three and nine month periods ended September 30, 2008. The Company reports its financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles (GAAP) in Canadian dollars. This MD&A was prepared with information available as of November 12, 2008. Additional information and disclosure relating to the Company can be found on SEDAR at **www.sedar.com**

FORWARD-LOOKING STATEMENTS

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

OVERVIEW

Plutonic Power Corporation and its wholly owned subsidiary companies, Plutonic Hydro Inc., Plutonic TMP Holdings Inc., and Upper Toba Hydro Inc., are incorporated in the Province of British Columbia, Canada. The Company is a reporting issuer in British Columbia, Alberta, and Ontario and its common shares trade on the Toronto Stock Exchange (TSX) under the symbol PCC.

The Company's principal business activities are the identification, development, construction and ultimately, the operation of economically viable clean power projects. The Company has a current portfolio of 41 run-of-river hydroelectric sites (Power Sites) in British Columbia (BC) with two Power Sites under construction and the remaining 39 Power Sites at various stages of evaluation, permitting and development. The Company is focused on a growth and development path to become a leading supplier of clean electricity.

The Company's 41 Power Sites have a total potential generation capacity of approximately 1,950 megawatts (MW) with the potential to generate approximately 6,400 gigawatt hours (GWh) of electricity annually.

The majority of the Company's Power Sites are located in the Green Power Corridor ™, an area in southwest coastal BC, which includes drainages flowing into the Toba, Bute and Knight Inlets.

OUTLOOK

British Columbia Hydro and Power Authority (BC Hydro) issued the Clean Power Call Request for Proposals (BC Hydro 2008 RFP) on June 11, 2008 for 5,000 GWh per year of seasonal and hourly firm energy to help ensure that the Province of British Columbia has sufficient electricity to meet its electricity needs by 2016. The BC Hydro 2008 RFP aligns with the BC Energy Plan released in 2007 which indicates that at least 90 per cent of all electricity will be clean and generated in the Province of BC. The BC Hydro 2008 RFP is structured to allow limited negotiation regarding the terms of the Electricity Purchase Agreement (EPA) with some proponents if applicable. BC Hydro has selected November 25, 2008 as the deadline for submission of proposals with EPA awards scheduled for mid April 2009 through June 2009.

During the third quarter of 2008, the Company and GE Energy Financial Services (GEEFS) signed a memorandum of understanding to jointly bid the Upper Toba Valley and Bute Inlet Power Projects into the BC Hydro 2008 RFP. See below under Proposed Transactions for more details.

In preparation for the submission of proposals under the BC Hydro 2008 RFP, the Company continues engineering, hydrological, environmental and permitting studies for its development projects located primarily in the Toba and Bute Inlet areas. Subject to the results of First Nations and local community consultation, permitting and feasibility work, the Company and GEEFS expect to jointly submit a portfolio of as much as 1,000 MW of capacity into the BC Hydro 2008 RFP.

PROJECT UPDATES

East Toba River and Montrose Creek Project Under Construction

During 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 196 MW East Toba River and Montrose Creek run-of-river generation facilities (Toba/Montrose) located in the Toba Valley, British Columbia. This includes approximately 150 km of transmission line to connect these two generation facilities to a new British Columbia Transmission Corporation's substation to be located at Saltery Bay.

During the fourth quarter of 2007, the Company and GE made their respective partners' contributions, arranged the required project debt financing and guarantees which totalled approximately $660 million and began construction of the Toba/Montrose project under the terms of TMGP's Engineering, Procurement and Construction (EPC) contract with its contractor Peter Kiewit Sons Co. (Kiewit) with scheduled completion of the Toba/Montrose project in 2010. These two generation facilities have a combined design capacity of 196 MW and are expected to generate an average of 745 GWh of electricity annually.

As at September 30, 2008, Kiewit had completed 38% of the contracted work under the EPC contract, including the necessary infrastructure and road access to the two generation facilities, penstocks and intakes, and starting excavation at the powerhouses and penstocks. TMGP is on budget and on schedule to commence delivery and sale of electricity to BC Hydro in 2010 under a 35-year EPA. The plan for the remainder of 2008 is to commence construction of the powerhouses, prepare for the intake diversions, complete all right of way clearing for the transmission line and complete installation of up to 60 km of transmission line conductor. The project maintains a high health, safety and environmental standard, which is confirmed by independent inspection. As at September 30, 2008, approximately 500,000 man-hours have been spent on the EPC contract with only two reportable incidents. Currently, 22% of the workforce on site is from First Nations communities and programs are in place to support training for near and long term job placement. First Nation contracting alliances for camp catering, right of way clearing and barging are meeting the project requirements of the Impact Benefit Agreements (IBA) with the Klahoose, Sliammon and Sechelt First Nations.

The Company holds a 51% non-participating and voting interest and a 40% economic interest in TMGP. After 35 years of operations, the Company's economic interest in TMGP will increase from 40% to 51%.

The Company accounts for its investment in TMGP using the proportionate consolidation method of accounting whereby the Company records its 40% share of assets, liabilities, revenues and expenses of TMGP.

The Company is required to contribute $30 million in equity on or before the earlier of the date TMGP's senior debt facilities have been fully drawn and November 1, 2010. The additional $30 million equity contribution in TMGP is primarily to fund an increase in capacity of the 230 kilovolt (KV) transmission line to be built from the Toba Valley to Saltery Bay. The Company will have the right to use, subject to a priority use agreement, any additional unused capacity of the transmission line for its three additional Upper Toba Valley Power Sites. In the interim, an affiliate of GE provided a $30 million guarantee to TMGP senior debt lenders in respect of the Company's $30 million equity contribution in 2010. In return, the Company granted GE the right to negotiate financing on up to an additional 200 MW of other hydroelectric power projects of the Company in British Columbia and issued to the GE affiliate 650,000 two year common share purchase warrants of the Company with an exercise price of $9.03 per common share. The Company pays the GE affiliate a 3% per annum fee on the amount of guarantee provided.

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

During 2007, the Company applied on behalf of TMGP for an incentive of one cent per kilowatt-hour for up to 10 years for eligible low-impact, renewable electricity projects constructed over the next four years from April 1, 2007 to March 31, 2011 from ecoENERGY, a Canadian federal government program to encourage construction of renewable and green projects. The Company has been notified that the project has passed basic qualification criteria and the environmental assessment documents are currently being reviewed as part of the application review process.

Upper Toba Valley Project

The Upper Toba Valley project, with three Power Sites, has combined potential generation capacity of 138 MW and potential annual electricity generation of 405 GWh. These three Power Sites are located on tributaries of the Toba River, approximately 100 km north of Powell River, BC and were added to the Company's portfolio during 2007.

During 2006, the Company applied for and had applications for water licences and Crown Land tenure accepted by the Water Stewardship Division, Ministry of the Environment (MOE) and the Integrated Land Management Bureau, Ministry of Agriculture and Lands (ILMB) for these three Power Sites. The Company then submitted the Upper Toba Valley project to the BC Environmental Assessment Office (EAO) for the construction of three run-of-river generation facilities, each of which is located on Dalgleish Creek, Jimmie Creek and the Upper Toba River.

A comprehensive study review under the Canadian Environmental Assessment Act (CEAA) review process is triggered if a project has a generating capacity of greater than 200 MW and has a transmission line capacity of greater than 345 KV and a transmission line length of greater than 75 km. As the Upper Toba Valley Project is below these thresholds, the CEAA review will be limited to a screening level review process which is harmonized with the BC Environmental Assessment review.

During the third quarter of 2008, the Company was notified by the EAO that its application for an Environmental Assessment Certificate has been accepted. The Company expects that the environmental assessment process should conclude by the end of Q2 or Q3 in 2009.

During the third quarter of 2008, the Company and GEEFS signed a memorandum of understanding to jointly bid the Upper Toba Valley and Bute Inlet Projects into the BC Hydro 2008 RFP in November 2008. See below under Proposed Transactions for more details.

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.

Bute Inlet Project

The Bute Inlet project, encompassing 17 Power Sites, has a combined potential generation capacity of 887 MW and potential annual electricity generation of 2,897 GWh. Eight of these 17 Power Sites were added during 2007 and one was added during 2008.

From 2003 through 2008, the Company applied for and had applications for water licences and Crown Land tenure accepted by MOE and ILMB for the Bute Power Sites.

During the third quarter of 2008, the Company and GEEFS signed a memorandum of understanding to jointly bid the Upper Toba Valley and Bute Inlet Projects into the BC Hydro 2008 RFP in November 2008. See below under Proposed Transactions for more details.

During the second quarter of 2008, the Company submitted its Bute Inlet project into the BC Environmental Assessment Process. The EAO has issued a Section 10 order that binds the project to the Environmental Assessment Act. Subsequently, an updated version of the Bute project description was also submitted to CEAA and the new Major Projects Management Office (MPMO) which conforms to their new guidelines. As the Bute Project exceeds the CEAA thresholds with respect to generating capacity and length of transmission line, a comprehensive study review under CEAA is automatically triggered.

The Bute project proposal submitted to the EAO, CEAA and MPMO is for the construction of 17 run-of-river generating facilities, organized into three interconnected groups. Seven 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.

The current Bute project configuration is to interconnect each group of facilities with a 230 KV transmission line to a substation near the mouth of the Southgate River. From the substation the electricity will be carried by a 360 KV or 500 KV transmission line to one of two points of interconnection to the BCTC grid, one at the BCTC Malaspina substation near Earl's Cove or one at the BCTC Campbell River substation on Vancouver Island. The preferred transmission route has not yet been selected. Ultimate Bute project design and configuration, including access roads and related infrastructure, will be determined in conjunction with First Nation and local community consultation, interconnection studies and upon completion of consultation with the appropriate Federal, Provincial and local governmental authorities on environmental, social and electrical impacts.

Knight Inlet Project

The Knight Inlet area, located 200 km north of Powell River, consists of six Power Sites and has a combined potential generation capacity of 247 MW and potential annual electricity generation of 749 GWh. The Company continues to conduct engineering and hydrological studies, consult with First Nations, community and other stakeholders, proceed with permitting and perform other required studies.

From 2006 through 2007, the Company applied for and had applications for water licences and Crown Land tenure accepted by MOE and ILMB for these Power Sites.

Europa Project

The Europa Power Project, located near Kitimat, BC, has a potential generation capacity of 81 MW and potential annual electricity generation of 280 GWh. In 2005, the Company applied for and had applications for water licences and Crown Land tenure accepted by MOE and ILMB for this Power Site.

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 generation, impact the Europa project. Clarification of BC government policy is ongoing.

Freda Creek Project

The Freda Creek Power Project has a potential generation capacity of 35 MW and potential annual electricity generation of 115 GWh. In 2005, the Company applied for and had applications for water licences and Crown Land tenure accepted by MOE and ILMB for this Power Site.

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

Rainy River and Hope Projects

During the first quarter of 2008, the Company sold the Rainy River and Hope Power Sites to AltaGas Income Trust (AltaGas) and received 180,433 special purchase warrants of AltaGas with each warrant entitling the Company to receive one fully paid AltaGas trust unit on January 1, 2010 at no additional cost. The Company valued these restricted warrants at their fair value using a Black-Scholes option pricing model and as a result, the Company wrote down the amount of development costs recorded for the Rainy River and Hope Power Sites to their fair value at December 31, 2007.

RESULTS OF OPERATIONS

Three months ended September 30, 2008, compared to the three months ended September 30, 2007

The Company recorded a net loss of $2,927,801 for the quarter ended September 30, 2008 ($0.07 loss per share) compared to a net loss of $1,082,306 ($0.03 loss per share) in the same period in 2007, an increase in net loss of $1,845,495, as explained in the following paragraphs.

During the three months ended September 30, 2008, the Company recorded its 40% share of TMGP's realized loss on interest rate swap contracts of $50,366 and an unrealized loss on the fair value adjustment of interest rate swap contracts of $536,304 compared to nil in the same period in 2007. The unrealized loss on the fair value adjustment of interest rate swap contracts is a non-cash item. TMGP entered into two interest rate swap contracts related to its $100 million floating rate credit facility which will be drawn during the approximately three year construction phase and is to be repaid during the operating term of 35 years. TMGP has designated one of the interest rate swaps as a cash flow hedge, while the other interest rate swap has not been designated as a hedge. See Financial and Other Instruments for details on the accounting treatment of these interest rate swaps.

Share-based compensation expense, a non-cash item, is recorded when previously granted options vest. This expense was $838,879 in the third quarter of 2008 compared to $549,793 in the same period in 2007, an increase of $289,086. A higher number of options vested in 2008 compared to 2007.

Salaries expense and management fees were $659,092 in the third quarter of 2008 compared to $351,699 in the same period in 2007, an increase of $307,393. The Company had a higher number of officers, managers and administrative staff in 2008 in line with the growth of the Company and the number of projects under active development.

The Company expensed $372,259 in guarantee fees during the third quarter of 2008 compared to nil in the comparative period. The guarantee fees are comprised of $147,259 in amortization of the fair value of the 650,000 warrants issued by the Company to GE in 2007 and $225,000 in cash payments related to the 3% annual cash fee paid to GE for the $30 million letter of credit GE has posted on behalf of the Company to TMGP lenders. The letter of credit provided by GE guarantees the $30 million equity contribution the Company is required to make in TMGP no later than November 1, 2010.

Consulting fees, office costs, professional fees, rent, transfer agent and listing fees and travel and promotion were $674,332 in the third quarter of 2008 compared to $385,317 in the same period in 2007, an increase of $289,015. The increased costs support the Company's increased development and growth activities related to its run-of-river power projects and the increased number of power projects under development.

During the third quarter of 2008 the Company expensed $61,399 on project evaluation costs compared to $8,326 in the same period in 2007. The Company will incur expenditures in evaluating potential projects. If the Company deems a new project worthy of acquiring, it will capitalize these costs or expense them as project evaluation costs if they do not warrant additional development resources.

Interest income was $276,622 in the third quarter of 2008 compared to $319,469 in the same period in 2007, a decrease of $42,847 due to decreasing interest rates.

Excluding Toba/Montrose project expenditures, during the quarter ended September 30, 2008, the Company incurred and capitalized $5,926,527 of costs associated with its Power Sites for on-going engineering and hydrological work, meeting regulatory and permitting requirements, as well as First Nations, community and other stakeholder consultations.

Nine months ended September 30, 2008, compared to the nine months ended September 30, 2007

The Company recorded a net loss of $9,374,399 for the nine months ended September 30, 2008 ($0.22 loss per share) compared to a net loss of $4,442,897 ($0.12 loss per share) in the same period in 2007, an increase in net loss of $4,931,502, as explained in the following paragraphs.

During the nine months ended September 30, 2008, the Company recorded its 40% share of TMGP's realized loss on interest rate swap contracts of $78,923 and an unrealized loss on the fair value adjustment of interest rate swap contracts of $2,153,763 compared to nil in the same period in 2007. The unrealized loss on the fair value adjustment of interest rate swap contracts is a non-cash item. TMGP entered into two interest rate swap contracts related to its $100 million floating rate credit facility which will be drawn during the approximately three year construction phase and is to be repaid during the operating term of 35 years. TMGP has designated one of the interest rate swaps as a cash flow hedge, while the other interest rate swap has not been designated as a hedge. See Financial and Other Instruments for details on the accounting treatment of these interest rate swaps.

Share-based compensation expense, a non-cash item, is recorded when previously granted options vest. This expense was $2,877,295 in the first nine months of 2008 compared to $2,792,914 in the same period in 2007, an increase of $84,381. A higher number of options vested in 2008 compared to 2007.

Salaries expense and management fees were $1,886,645 in the first nine months of 2008 compared to $916,018 in the same period in 2007, an increase of $970,627. The Company had a higher number of officers, managers and administrative staff in 2008 in line with the growth of the Company and the number of projects under active development.

The Company expensed $1,116,776 in guarantee fees during the nine month period ended September 30, 2008 compared to nil in the comparative period. The guarantee fees are comprised of $441,776 in amortization of the fair value of the 650,000 warrants issued by the Company to GE in 2007 and $675,000 in cash payments related to the 3% annual cash fee paid to GE for the $30 million letter of credit GE has posted on behalf of the Company to TMGP lenders. The letter of credit provided by GE guarantees the $30 million equity contribution the Company is required to make in TMGP no later than November 1, 2010.

Consulting fees, office costs, professional fees, rent, transfer agent and listing fees and travel and promotion were $2,123,906 in the first nine months of 2008 compared to $1,309,414 in the same period in 2007, an increase of $814,492. The increased costs support the Company's increased development and growth activities related to its run-of-river power projects and the increased number of power projects under development.

During the first nine months of 2008 the Company expensed $110,846 on project evaluation costs compared to $139,021 in the same period in 2007. The Company will incur expenditures in evaluating potential projects. If the Company deems a new project worthy of acquiring, it will capitalize these costs and expense them as project evaluation costs if they do not warrant additional development resources.

Interest income was $1,002,463 in the first nine months of 2008 compared to $830,504 in the same period in 2007, an increase of $171,959 due to higher average cash balances on hand.

Excluding Toba/Montrose project expenditures, during the nine months ended September 30, 2008, the Company incurred and capitalized $13,822,380 of costs associated with its Power Sites for on-going engineering and hydrological work, meeting regulatory and permitting requirements, as well as First Nations, community and other stakeholder consultations.

SUMMARY OF QUARTERLY RESULTS

The following table summarizes information regarding the Company's operations on a quarterly basis for the last eight quarters.

Quarter Ended	Revenue	Loss	Loss Per Share	Loss Per Diluted Share
30-Sep-08	$ -	$2,927,801	$0.07	$0.07
30-Jun-08	$ -	$3,686,334	$0.09	$0.09
31-Mar-08	$ -	$2,760,264	$0.07	$0.07
31-Dec-07	$ -	$6,202,015	$0.17	$0.17

Quarter Ended	Revenue	Loss	Loss Per Share	Loss Per Diluted Share
30-Sep-07	$ -	$1,082,306	$0.03	$0.03
30-Jun-07	$ -	$2,704,232	$0.07	$0.07
31-Mar-07	$ -	$656,359	$0.02	$0.02
31-Dec-06	$ -	$117,595	$0.01	$0.01

The Company's proportionate interest in the change in fair value of TMGP's interest rate swap contracts (a non-cash item) has caused significant fluctuations in earnings from quarter to quarter. On July 15, 2008, TMGP designated one of the two interest rate swap as an accounting cash flow hedge. This will reduce some of the fluctuations in earnings in the future.

Additionally, operating costs and stock based compensation costs have been increasing with the growth of the Company and with the issuance of a higher number of stock options.

LIQUIDITY AND CAPITAL RESOURCES

The Company had consolidated working capital of $43,792,276 as at September 30, 2008 compared to consolidated working capital of $50,412,726 as at December 31, 2007, a decrease of $6,620,450. The net decrease in working capital has been primarily the result of expenditures by the Company on power project development costs, offset by the Company's proportionate interest in the increase in net working capital of TMGP. TMGP's working capital will fluctuate depending on the timing of expenditures and funding from the long term debt facilities. At September 30, 2008, the Company had $34.6 million in cash (2007 - $43.1 million) and its proportionate interest in TMGP's cash was $2.3 million (2007 - $0.3 million), for a consolidated cash balance of $36.9 million (2007 - $43.4 million). In addition, the Company's proportionate interest in TMGP's restricted cash was $16.4 million as at September 30, 2008 (2007 - $8.1 million).

During the three and nine month periods ended September 30, 2008, the Company incurred cash development expenditures of $4,939,223 and $10,650,046 respectively on developing its Power Sites, recorded its proportionate share of cash additions to property, plant and equipment of $29,330,791 and $44,551,699 respectively for the current construction of Toba/Montrose. During the three and nine month periods ended September 30, 2008, the Company also recorded its proportionate share of additions to intangibles for the current construction of Toba/Montrose, being $86,010 and $261,363 respectively. The Company recorded its proportionate share of TMGP's long term debt, being $62,050,548, of which $16,444,972 is deposited in a restricted account pending required payments for Toba/Montrose construction and related costs. During the three and nine month periods ended September 30, 2008, the Company used cash in operating activities of $1,546,115 and $3,937,211 respectively.

The Company and GEEFS intend to jointly bid the Upper Toba Valley and Bute Inlet Projects into the 2008 BC Hydro RFP by November 25, 2008. If the Company and GEEFS are successfully awarded EPAs for the Upper Toba and/or Bute Inlet projects during 2009, based on current assumptions, the Company and GE would set up project partnerships to hold the awarded EPAs. GEEFS 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 Company would be responsible for all costs of permitting, public consultation and environmental assessment certification. It is also intended that in connection with the equity funding of the Upper Toba Partnership by GEEFS, the Upper Toba Partnership will, in connection with the closing of such funding, direct payment of the sum of $20 million to the Company for payment of certain pre-determined previously incurred capital costs.

The Company is required to contribute $30 million in equity to TMGP on or before the earlier of the date TMGP's senior debt facilities have been fully drawn and November 1, 2010; currently anticipated to be in early 2010. In addition, the Company is required to fund its pro-rata share of TMGP project cost overruns, if any.

Excluding the TMGP project financing disclosed below, the Company's source of financing to date has been from the sale or issuance of common shares from treasury. For the three and nine month periods ended September 30, 2008, the Company received proceeds of $4,307,187 and $5,948,501 respectively from the issuance of shares. The Company has sufficient working capital to fund its remaining 2008 and expected 2009 operating and development expenditures. Subject to the award of a successful EPA for the Upper Toba Valley Project and the related project equity funding by GEEFS, the Company may also receive a payment of $20 million for reimbursement of previously incurred capital costs. The Company anticipates that it will need to raise some additional financing to fund its post 2009 requirements, including its $30 million equity commitment to TMGP prior to November 1, 2010.

<u>TMGP financing</u>

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

- a $370 million, 38-year, senior secured credit facility with a fixed interest rate, a fixed draw down schedule to correspond with the three-year construction period and a repayment period over the 35-year term of the project's EPA with BC Hydro. The interest rate on this credit facility is 6.288% per annum during construction and 6.173% thereafter. As at September 30, 2008, the lenders had funded $155.1 million under this credit facility of which the Company's proportionate share is $62.1 million.

- a $100 million, 38-year, senior secured credit facility with floating interest rate, flexible draw downs during the three-year construction period and a repayment period over the 35-year term of the project's EPA with BC Hydro. The interest rate on this credit facility is based on one month Canadian dollar bankers' acceptance rates during construction and three months Canadian dollar banker's acceptance rates thereafter, plus an applicable credit spread in each instance. The credit spread is 1.35% per annum during the construction period and for the first four years thereafter, and 1.60% for the remaining term of the credit facility. As at September 30, 2008, TMGP had not yet drawn from this credit facility. Concurrently with the closing of this floating rate credit facility, TMGP entered into two interest rate swap contracts, one for the estimated term of the construction period and one for the estimated operating term.

TMGP paid an upfront fee to the co-lead arrangers and lenders of $4.7 million on closing of the credit facilities. 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 during the construction period until fully drawn.

GE, through an affiliate, provided a $100 million equity bridge loan to TMGP. On commencement of commercial operations, which is expected to occur in 2010, GE will invest $100 million of equity in TMGP which will be used to repay the $100 million equity bridge loan. TMGP pays interest to the GE affiliate on the equity bridge loan with a cumulative maximum amount of $15 million payable during construction. As at September 30, 2008, TMGP had drawn the entire $100 million under the equity bridge loan.

CONTRACTUAL OBLIGATIONS

During 2006, the Company executed an EPA with BC Hydro to supply all the electricity to be generated from the East Toba and Montrose project beginning in November 2010 for 35 years, which is expected to be on average 745 GWh annually. This EPA was transferred to TMGP in 2007 and it is now a TMGP commitment.

The Company is required to contribute $30 million in equity on or before the earlier of the date TMGP's senior debt facilities have been fully drawn and November 1, 2010. The additional $30 million equity contribution in TMGP is primarily to fund an increase in capacity of the 230 KV transmission line to be built from the Toba Valley to Saltery Bay. The Company will have the right to use, subject to a priority use agreement, any additional unused capacity of the transmission line for its three additional Upper Toba Valley Power Sites. An affiliate of GE provided a $30 million contingent equity guarantee to TMGP senior debt lenders to support the Company's $30 million equity contribution in 2010. The Company pays the GE affiliate a 3% per annum fee on the amount of guarantee provided.

In connection with the purchase of Plutonic Hydro Inc. from Knight Piesold 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 on certain of its power projects. The bonus is payable in shares or cash at the Company's option. During 2007, the Company paid a cash bonus of approximately $745,000 relating to the Toba/Montrose project.

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 Company issued 100,000 common share purchase warrants to Knight Piesold, exercisable at a price of $7.93 for a period of two years and is required to pay a bonus if any of the identified projects become commercially viable.

The Company has no other material contractual obligations for the next five years. The Company is, however, required to carry on the development work to maintain its rights to the Power Sites. The Company can elect to abandon its Power Sites and in such instances, the Company would then no longer be required to fund any additional development costs.

<u>TMGP obligations</u>

The obligations of TMGP, including the contracts, permits, licences and IBAs transferred from the Company, are non-recourse to the Company.

During 2007, the Company transferred to TMGP the Toba/Montrose project and associated permits, licences, IBA with the Klahoose and Sliammon First Nations and its EPA with BC Hydro. These IBA's include financial commitments with respect to signing bonuses, construction access fees, continued access fees, project and training opportunities, and royalty payments. During 2008, TMGP entered into an IBA with the Sechelt First Nations with similar financial commitments, project and training opportunities and royalty payments to the Klahoose and Sliammon First Nations.

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

TMGP engaged GE Capital Markets (Canada), Ltd., an affiliate of GE, and the Manufacturers Life Insurance Company as co-lead to arrange the required project debt financing. The co-lead arrangers led a syndicate of financial institutions to provide TMGP with $470 million of 38-year senior secured credit facilities with draw downs to correspond with the three-year construction period and repayment over the 35-year term of the project's EPA with BC Hydro. These credit facilities are secured by TMGP's assets. As at September 30, 2008, the debt providers had advanced $155.1 million of the $470 million credit facilities to TMGP.

TMGP executed a $497 million fixed-price EPC contract with Kiewit for the construction of Toba/Montrose. As at September 30, 2008, TMGP had incurred $193.7 million under the Kiewit EPC contract.

A GE affiliate provided $28 million of contingent equity and debt service reserve guarantees during construction of the project and $8 million of contingent debt service reserve guarantee to TMGP debt providers during operations. TMGP is required to pay to the GE affiliate a 3% per annum fee on the amount of guarantees provided. If required, the Company and GE would be required to fund its pro-rata share of project cost overruns, if any.

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

Summary of Material Obligations

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

In millions	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Long -term debt used	$62.1	-	-	$1.7	$60.4
Long-term debt to be (drawn) repaid	($125.9)	($103.3)	($22.6)	$3.5	$122.4
Purchase obligations	$121.5	$100.1	$21.4	-	-

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

OFF-BALANCE SHEET ARRANGEMENTS

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

FINANCIAL AND OTHER INSTRUMENTS

On November 8, 2007, TMGP entered into two interest rate swap contracts that on a combined basis cover the period from November 8, 2007 to June 30, 2045.
The first interest rate swap contract provides for monthly settlements from November 8, 2007 to November 1, 2010 (Short Dated Interest Rate Swap). Pursuant to the interest rate swap agreement, TMGP 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 was based on estimated drawings to be made on the $100 million floating rate credit facility. The notional amount of the swap at September 30, 2008 is $37.0 million and it increases on a monthly basis to a maximum notional amount of $100 million beginning on May 1, 2010. TMGP and the counterparty net settle the amount owing on a monthly basis commencing December 31, 2007.

The second interest rate swap contract provides for quarterly settlements from November 1, 2010 to June 30, 2045 (Long Dated Interest Rate Swap). Pursuant to the interest rate swap agreement, TMGP will receive interest on a notional amount at the three month Canadian dollar Bankers Acceptance Rate from the counterparty and will pay interest on the notional amount at an interest rate of 5.341% per annum. The notional amount is $100 million and is reduced in amounts based on the scheduled principal repayments on the $100 million floating rate facility over the life of the interest rate swap. TMGP and the counterparty net settle the amount owing on a quarterly basis commencing December 31, 2010.

Prior to July 15, 2008, neither the Company nor TMGP had designated the two interest rate swap contracts as hedges in accordance with CICA 3865, Hedges. As such, TMGP and the Company accounted for the interest rate swaps as derivative financial instruments and recorded the fair value of the two hedging contracts on its balance sheet at each period end, with realized and unrealized gains or losses from the change in fair value recorded in the statement of operations.

On July 15, 2008, TMGP designated the Long Dated Interest Rate Swap as an accounting cash flow hedge. While the fair value of the Long Dated Interest Rate Swap contract continues to be recognized on the balance sheet at each period end, the changes in the fair value of the effective portion of the interest rate swap contract are recorded from July 15, 2008 onwards in other comprehensive income until such time as the gain or loss is realized, at which time the gain or loss is reclassified to net earnings. The changes in the fair value of the ineffective portion of the interest rate swap contract are recorded in the statement of operations.

Further details on the interest rate swap can be found in note 10 of the Consolidated Financial Statements.

TRANSACTIONS WITH RELATED PARTIES

The Company has no material transactions with related parties.

PROPOSED TRANSACTIONS

On August 14, 2008, the Company and GEEFS 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 cost of these projects is estimated at $4 billion.

The Company and GEEFS intend to jointly bid the Upper Toba Valley and Bute Inlet Projects into the BC Hydro 2008 RFP by November 25, 2008. Based on current assumptions, if the two entities' joint bid is accepted, GEEFS 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 project variables including final capital cost, awarded energy price and estimates of power output. GEEFS would also have the right to arrange debt financing for the projects. Prior to GEEFS' 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 EPA for Upper Toba Valley Project and Bute Inlet Project with BC Hydro, GEEFS would be granted one million and four million warrants respectively, with each warrant entitling GEEFS 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.

RISKS AND UNCERTAINTIES

The ability of the Company to become a viable provider of renewable and clean power is dependant upon a number of factors and includes, but is not limited to, the following: successful completion of hydrological studies to confirm that water flows are sufficient to generate enough electricity to provide a suitable return on investment, receipt of water licences, environmental and other permits to build and operate the projects, the successful negotiation of a long term contract with a purchaser of electricity, the ability to obtain sufficient equity and long term debt financing to construct the projects, support from First Nations that may have a claim to the land base where the Company's projects lie, community and stakeholder support and the ability to connect the projects to the BCTC grid, successful construction and operation of the generation facilities and associated transmission lines.

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

The Company will need to raise additional equity and/or seek project equity financing to finance the equity portion for the construction of its projects. Existing shareholders of the Company will be subject to dilution.

CRITICAL ACCOUNTING ESTIMATES

The Company's accounting policies are described in detail in note 2 of the annual consolidated financial statements for the year ended December 31, 2007, with any changes in these policies being disclosed in note 2 to the interim consolidated financial statements for the three and nine month periods ended September 30, 2008. The Company considers the following policies to be most critical in understanding its financial results:

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 commitments 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 matters and negotiations with other parties.

Carrying value of power development costs

The Company capitalizes direct costs associated with development of its power projects. Costs associated with successful projects are reclassified as capital assets and amortized over the useful life of the projects. The Company evaluates its power projects regularly for impairment and writes off costs that are not expected to be recoverable.

The recovery of power projects development costs is dependent upon the successful completion of the projects. The success of the power 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, to generate sufficient electrical power and to sell the electricity generated on a profitable basis.

Stock-based compensation

The Company uses the fair value method of accounting for options granted under its stock-based compensation plan. Stock options to employees 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. Stock options granted to consultants are valued at the time the options vest and at every reporting period for those not yet vested. 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.

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

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

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.

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 the Notes to the Consolidated Financial Statements.

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 the Notes to the Consolidated 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 presentation or classification of the Company's financial instruments.

International Financial Reporting Standards (IFRS)

In 2006, the Canadian Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

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.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the Company's internal control over financial reporting during the three and nine month periods ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

DISCLOSURE OF OUTSTANDING SHARE DATA

As at November 12, 2008, the Company had the following common shares, stock options and warrants outstanding:

Common shares	44,151,503
Stock options (vested and unvested)	4,308,500
Warrants	750,000
Fully Diluted shares outstanding	49,210,003