

# **PLUTONIC POWER CORPORATION**

Consolidated Financial Statements  
Year Ended December 31, 2004  
and Auditors' Report

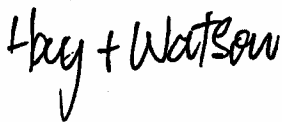
## **AUDITORS' REPORT**

### **To the Shareholders of Plutonic Power Corporation**

We have audited the consolidated balance sheets of Plutonic Power Corporation as at December 31, 2004 and 2003 and the consolidated statements of loss and deficit and of cash flows for the year ended December 31, 2004 and the six months ended December 31, 2003. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements.

In our opinion, these financial statements present fairly, in all material respects, the financial positions of the company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the year ended December 31, 2004 and the six months ended December 31, 2003 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Vancouver, B.C.  
February 2, 2005

# PLUTONIC POWER CORPORATION

## Consolidated Balance Sheets

	December 31	
	2004	2003
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 1,923,424	\$ 592,989
Accounts receivable	31,235	3,661
Prepaid financing costs	5,000	16,000
	1,959,659	612,650
<b>Power Projects (Note 4)</b>	1,803,706	155,000
<b>Equipment (Note 6)</b>	6,437	-
	\$ 3,769,802	\$ 767,650
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable	\$ 104,250	\$ 13,062
<b>Future Income Taxes</b>	567,000	-
	671,250	13,062
<b>SHAREHOLDERS' EQUITY</b>		
Share Capital (Note 7)	3,802,368	806,332
Share Subscriptions (Note 7)	-	372,500
Contributed Surplus (Note 7)	219,058	31,313
Deficit	(922,874)	(455,557)
	3,098,552	754,588
	\$ 3,769,802	\$ 767,650

### APPROVED BY THE BOARD:

“Donald A. McInnes” Director

“R. Stuart Angus” Director

# PLUTONIC POWER CORPORATION

## Consolidated Statements of Loss and Deficit

	<b>December 31</b>	
	<b>2004</b>	<b>2003</b>
	<b>(12 Months)</b>	<b>(6 Months)</b>
<b>Expenses</b>		
Amortization	\$ 1,136	\$ -
Dues and subscriptions	3,278	1,462
Management fees	41,603	17,823
Office	24,878	2,627
Professional fees	55,659	4,656
Rent	21,162	3,000
Share-based compensation (Note 7)	187,745	31,313
Support services	19,350	3,665
Transfer agent and listing fees	43,923	12,316
Travel and promotion	39,335	2,758
	438,069	79,620
<b>Less Interest Income</b>	752	-
	437,317	79,620
<b>Loss Before the Following</b>	437,317	79,620
<b>Tide Property Costs Written Off</b>	30,000	49,947
<b>NET LOSS</b>	467,317	129,567
<b>DEFICIT, Beginning of Period</b>	455,557	325,990
<b>DEFICIT, End of Period</b>	\$ 922,874	\$ 455,557
<b>Basic and Diluted Loss Per Share</b>	\$ 0.07	\$ 0.04

# PLUTONIC POWER CORPORATION

## Consolidated Statements of Cash Flows

	December 31	
	2004 (12 Months)	2003 (6 Months)
<b>Cash Flows Used For Operating Activities</b>		
Cash paid to suppliers	\$ (166,063)	\$ (53,494)
<b>Cash Flows Used For Investing Activities</b>		
Power project expenditures	(1,177,065)	(155,000)
Equipment	(7,573)	-
Mineral property expenditures	-	(28,000)
	(1,184,638)	(183,000)
<b>Cash Flows From Financing Activities</b>		
Shares issued	2,914,534	383,000
Share subscriptions received	-	372,500
Share issue costs	(233,398)	(16,000)
	2,681,136	739,500
<b>Increase in Cash</b>	1,330,435	503,006
<b>CASH, Beginning of Period</b>	592,989	89,983
<b>CASH, End of Period</b>	\$ 1,923,424	\$ 592,989
<b>Supplementary Information on Non-Cash Transactions</b>		
Shares issued for mineral property interests	\$ 30,000	\$ 10,000
Shares issued for acquisition of subsidiary company	490,400	-
Future income taxes – flow through share renunciation	567,000	-

# PLUTONIC POWER CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2004

### 1. OPERATIONS

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

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

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of operations. The Company is still in the initial stages of its development and has incurred a net loss for the year of \$467,317. The Company expects that the approval and granting of water licenses and subsequent development of its hydro electric projects will result in the achievement of profitable operations. However, there is a risk that additional financing from shareholders or third parties may be necessary to satisfy liabilities as they come due if current expectations are not realized. If the Company requires such financing and is unable to attain it, material adjustments may be required to the reported amount of assets, liabilities and results of operations.

### 2. SIGNIFICANT ACCOUNTING POLICIES

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

#### **Acquisition and Basis of Presentation**

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

# PLUTONIC POWER CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2004

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Acquisition and Basis of Presentation (continued)

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

Cash and accounts receivable	\$ 35,572
Power prospect development costs	654,587
Liabilities	<u>(707,309)</u>
	(17,150)
Deemed value of shares issued	<u>490,400</u>
Net acquisition cost of power projects	<u>\$507,550</u>

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

#### Power Project Development Costs

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

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

#### Reclamation

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

# PLUTONIC POWER CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2004

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Equipment

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

#### Impairment of Assets

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

#### Income Taxes

The Company follows the liability method of accounting for income taxes. Using this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements of the Company and their respective tax bases, using enacted income tax rates. The effect of a change in income tax rates on future tax liabilities and assets is recognized in income in the period in which the change occurs. A future income tax asset is recorded when the probability of the realization is more likely than not.

#### Flow-Through Shares

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

#### Share-based Compensation

The Company issues options to purchase shares under the terms described in Note 7.

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

# PLUTONIC POWER CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2004

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Share-based Compensation (continued)

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

#### Loss Per Share

The basic loss per share is calculated on the basis of the weighted average number of common shares of the Company that were outstanding in each reporting period. The diluted loss per share includes the potential dilution from share purchase options and warrants using the treasury stock method to calculate potential dilution, whereby any expected proceeds from the exercise of options or other dilutive instruments are assumed to be used for the repurchase of common shares at the average market price during the period.

#### Use of Estimates

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

### 3. CHANGES IN ACCOUNTING STANDARDS

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

### 4. POWER PROJECTS

Power projects consist of engineering and permitting costs and license application fees relating to the project and design plans and water and land use license applications described in Note 1.

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

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

# PLUTONIC POWER CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2004

### 4. POWER PROJECTS (continued)

In the event the water licenses and Crown land rights are not approved and granted and the projects do not commence as planned, the deferred costs will be written off.

The Company's expenditures to December 31, 2004 on its prospective hydro electric projects are:

	2004	2003
Hope Projects		
Ruby Creek	\$ 250,474	\$ 22,064
American Creek	38,920	3,434
Emory Creek	54,853	4,839
Howe Sound Project		
Rainy River	195,557	15,788
Green Power Corridor Projects ("GPC")	354,831	30,566
East Toba		
Montrose Creek	354,831	30,566
Other GPC Projects	554,240	47,743
	<hr/>	<hr/>
	\$ 1,803,706	\$ 155,000

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

#### **Ruby Creek, Hope Project**

Located near Hope British Columbia the Ruby Creek Project has an initially designed installed capacity of 22MW with the potential to generate approximately 91 gigawatt hours per year .

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

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

# PLUTONIC POWER CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2004

### 4. POWER PROJECTS (continued)

#### East Toba and Montrose Creek , Green Power Corridor

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

### 5. MINERAL PROPERTY

The Company entered into an agreement in 2002 with Rimfire Mineral Corporation (“Rimfire”) to acquire a 51% undivided legal and beneficial interest in the Tide Property, located in the Skeena Mining Division, British Columbia. In November 2003, the Company granted Serengeti Resources Inc. (“Serengeti”) an option, subject to regulatory approval, to assume its rights and obligations under the Tide property agreement with Rimfire. Serengeti has agreed, in addition to assuming the Company’s obligations to Rimfire, to issue 50,000 common shares to the Company on regulatory approval and an additional 25,000 common shares on each anniversary of the agreement until it acquires the 51% interest in property. Serengeti will also issue 1,000,000 shares or pay \$2,000,000 to the Company on the commencement of production.

The Company wrote off the costs it had incurred on the Tide property on December 31, 2003 and wrote off the value of shares it issued to Rimfire in March 2004 as consideration for that company’s acceptance of the Serengeti option.

### 6. EQUIPMENT

	Cost	Accumulated Amortization	2004 Net Book Value	2003 Net Book Value
Computer equipment	\$ 7,573	\$ 1,136	\$ 6,437	\$ -

# PLUTONIC POWER CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2004

### 7. SHARE CAPITAL

Authorized

100,000,000 common shares without par value

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

Issued and outstanding

	<b>Number of Shares</b>	<b>Amount</b>
<b>Common shares</b>		
Issued and fully paid		
Issued for cash on incorporation	1	\$ 1
Issued for cash	999,999	99,999
Issued for cash, net of share issue costs of \$59,541	1,300,000	200,459
<hr/>		
Balance June 30, 2003	2,300,000	300,459
Share consolidation 2 to 1	(1,150,000)	-
Issued for cash, net of share issue costs of \$19,127	2,500,000	480,873
Issued for mineral properties	50,000	10,000
Issued for cash on the exercise of warrants	60,000	15,000
<hr/>		
Balance December 31, 2003	3,760,000	806,332
Issued for mineral property	100,000	30,000
Issued for cash, net of share issue costs of \$811,398	5,529,169	2,145,036
Issued for cash on exercise of warrants and options	1,205,000	330,600
Issued for acquisition of Plutonic Hydro Inc. (Note 2)	1,532,500	490,400
<hr/>		
Balance, December 31, 2004	12,126,669	\$ 3,802,368

900,000 of the issued common shares are subject to escrow restrictions.

In February 2005 the Company agreed to issue 332,063 additional shares for the acquisition of Plutonic Hydro Inc. (Note 1). The Company has also agreed to issue additional shares, or make a cash payment, when two power projects obtained on the acquisition of Plutonic Hydro Inc. secure construction financing and commence construction. The number of shares or cash payment will be based on the generating capacity of those projects.

The Company issues share purchase options to directors, officers, 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 has reserved 20% of the outstanding common shares for issue of share purchase options under this plan. As of December 31, 2004, the Company has issued 750,000 share purchase options in excess of the 20% reservation. These options are subject to approval of the shareholders at the next annual general meeting.

# PLUTONIC POWER CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2004

### 7. SHARE CAPITAL (continued)

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

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

Options	Number of Shares			Balance, December 31, 2004	Exercisable at December 31, 2004	Price Per Share Exercise price and grant date fair value	Expiry Date	Grant Date
	Balance, December 31, 2003	Granted during the period	Exercised during the period					
Directors	103,750	-	-	103,750	103,750	\$0.20	2/03/05	31/08/99
Officers	7,500	-	-	7,500	7,500	\$0.20	2/03/05	31/08/99
Employees	2,500	-	-	2,500	2,500	\$0.20	2/03/05	31/08/99
Directors	526,250	-	-	526,250	394,688	\$0.20	8/09/08	8/09/03
Officers	20,000	-	-	20,000	15,000	\$0.20	8/09/08	8/09/03
Employees	80,000	-	15,000	65,000	48,750	\$0.20	8/09/08	8/09/03
Directors	-	412,000	-	412,000	206,000	\$0.32	5/17/09	5/17/04
Officers	-	25,000	-	25,000	12,500	\$0.32	5/17/09	5/17/04
Employees	-	120,000	-	120,000	60,000	\$0.32	5/17/09	5/17/04
Consultants	-	225,000	-	225,000	112,500	\$0.32	5/17/09	5/17/04
Officers	-	150,000	-	150,000	-	\$0.65	9/29/09	9/29/04
Directors	-	155,000	-	155,000	-	\$0.75	11/23/09	11/23/04
Consultants	-	75,000	-	75,000	-	\$0.75	11/23/09	11/23/04
Employees	-	370,000	-	370,000	-	\$0.75	11/23/09	11/23/04
	740,000	1,532,000	15,000	2,257,000	963,188			

Warrants	Number of Shares	Price Per Share	Expiry Date	Issue Date
	2,270,000	\$0.31	May 16, 2006	May 16, 2004
	508,000	\$1.60	December 23, 2005	December 23, 2004
	1,092,000	\$1.10	March 15, 2006	December 23, 2004
	272,770	\$1.25	December 23, 2005	December 23, 2004
	4,142,770			

# PLUTONIC POWER CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2004

### 7. SHARE CAPITAL (continued)

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

Average risk-free interest rate	2.5%
Expected share price volatility	630%
Expected average period until exercise	3 years
Expected dividend yield	-

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

	2004	2003
Share-based compensation	\$ 187,745	\$ 31,313
Contributed surplus	219,058	31,313

The Company adopted the policy for share based compensation of employees and non-employees, as described in Note 2, during the previous fiscal period. In accordance with the requirements of the CICA Handbook, the Company will account for this change in policy on a prospective basis. The Company will, accordingly, record compensation expense only for options vesting during the current fiscal period and subsequently and will not record any compensation expense for options which vested in prior years. The proceeds on exercise of those options will be recorded in share capital when they are exercised. Had the Company recorded the compensation expense for options which vested in prior years retroactively, the impact on the financial statements would have been:

	Year Ended June 30	
	2003	2002
Share-based compensation expense	\$ -	\$ 22,750
Net loss, as reported	40,038	27,374
Net loss, pro forma	40,038	50,124
Deficit, pro forma	\$ 348,740	\$ 308,702
Loss per share, pro forma	\$ 0.04	\$ 0.04

# PLUTONIC POWER CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2004

---

### 8. FINANCIAL INSTRUMENTS

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

### 9. RELATED PARTY TRANSACTIONS

During the year the Company paid \$149,020 (2003 - \$32,107) to another company owned by the president of the Company for management fees, office services and reimbursement of disbursements.

### 10. INCOME TAXES

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

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