

Plutonic

POWER CORPORATION



Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Plutonic Power Corporation are the responsibility of management. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and where appropriate include management's best estimates and judgments.

Management maintains a system of internal control designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and that financial information is timely and reliable.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Board of Directors appoints the Audit Committee, and all of its members are independent directors. The Audit Committee meets periodically with management and the shareholders' auditors to review financial statements and reports prepared by management, internal controls, audit results, accounting principles and related matters. The Board of Directors approves the consolidated financial statements on recommendation from the Audit Committee.

KPMG LLP, an independent firm of Chartered Accountants, was appointed by the shareholders at the last annual meeting to examine the consolidated financial statements and provide an independent professional opinion.

"Donald A. McInnes"

Donald A. McInnes
Chief Executive Officer

March 15, 2011

"Peter G. Wong"

Peter G. Wong
Chief Financial Officer



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AUDITORS' REPORT TO THE SHAREHOLDERS

To the Shareholders

We have audited the accompanying consolidated financial statements of Plutonic Power Corporation ("the entity"), which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations and comprehensive loss, deficit, accumulated other comprehensive loss and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Plutonic Power Corporation as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants
Vancouver, Canada
March 15, 2011

PLUTONIC POWER CORPORATION

Consolidated Balance Sheets

December 31, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash	\$ 14,921,687	\$ 14,403,920
Restricted cash (note 11)	9,888,268	51,863,652
Accounts receivable	451,488	-
Current portion of builder's lien holdback deposit accounts (note 7)	2,858,178	16,980,220
Interest and other receivables	16,178	174,461
HST / GST recoverable	608,484	662,716
Prepaid expenses	600,549	266,907
Investment (note 6)	-	3,614,647
	29,344,832	87,966,523
Performance security deposits	421,458	421,458
Builder's lien holdback deposit account (note 7)	-	431,919
Power project development costs (note 8)	40,451,039	38,286,084
Property, plant and equipment (note 9)	335,156,171	268,166,267
Intangible assets (note 10)	5,945,022	5,630,328
	\$ 411,318,522	\$ 400,902,579
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 12,608,044	\$ 8,028,776
Interest and fees payable (note 11(a))	863,115	750,086
Current portion of builder's lien holdbacks payable (note 7)	2,849,808	17,479,112
Current portion of long-term debt (note 11)	2,884,314	-
Current portion of interest rate swap contracts (note 12)	1,505,959	4,218,755
	20,711,240	30,476,729
Builder's lien holdback payable (note 7)	-	431,919
Long-term debt (note 11)	269,807,967	238,834,356
Interest rate swap contracts (note 12)	14,685,754	9,482,857
Deferred gain on transfer of assets (note 3(a))	15,957,815	16,189,088
	321,162,776	295,414,949
Shareholders' equity:		
Share capital (note 14)	140,968,428	140,824,318
Contributed surplus (note 15)	15,969,813	14,148,781
Accumulated other comprehensive loss	(5,837,290)	(343,879)
Deficit	(60,945,205)	(49,141,590)
	90,155,746	105,487,630
Commitments (notes 1, 3, 4, 8 and 18)		
Subsequent events (notes 1, 3, 4, 9, 11, 14 and 19)		
	\$ 411,318,522	\$ 400,902,579

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

"Donald A. McInnes"

Director

"Peter Flynn"

Director

PLUTONIC POWER CORPORATION

Consolidated Statements of Operations and Comprehensive Loss

For the years ended December 31, 2010 and 2009

	2010	2009
Operating Income:		
Electricity sales	\$ 867,242	\$ -
EcoEnergy grant	81,704	-
Total income	948,946	-
Expenses:		
Amortization	895,617	68,210
Consulting	224,993	533,400
General and administration	472,166	353,936
Guarantee fees (note 5)	-	1,561,293
Insurance	147,821	101,099
Operations and maintenance	405,321	-
Power project development costs written-off	-	34,900
Professional fees	268,563	354,491
Project evaluation	56,373	391,806
Rent	420,483	441,700
Salaries	6,257,128	4,284,751
Share-based compensation	1,771,724	1,413,827
Transfer agent and listing fees	82,573	75,934
Travel and promotion	1,043,038	1,996,640
Total expenses	(12,045,800)	(11,611,987)
Loss before the undernoted	(11,096,854)	(11,611,987)
Other income (expenses):		
Dividend income (note 6)	162,390	-
Interest expense	(2,003,886)	-
Interest income	66,854	141,443
Loss on disposal of investment (note 6)	(549,516)	-
Realized and unrealized gain (loss) on interest rate swap contracts (note 12)	1,540,305	(7,798,067)
Recognition of deferred gain (note 3(a))	77,092	-
	(706,761)	(7,656,624)
Net loss for the year	(11,803,615)	(19,268,611)
Other comprehensive income (loss):		
Change in fair value of effective portion of interest rate swap designated as a hedge (note 12)	(5,760,107)	3,294,877
Change in fair value of interest rate swap transferred to net earnings/loss (note 12)	266,696	-
Unrealized loss on available-for-sale investment (note 6)	(549,516)	-
Reclassification of loss realized on sale of available-for-sale investment (note 6)	549,516	-
Comprehensive loss for the year	\$ (17,297,026)	\$ (15,973,734)
Basic and fully diluted loss per common share	\$ (0.18)	\$ (0.40)
Weighted average number of common shares outstanding	65,407,765	47,602,874

See accompanying notes to the consolidated financial statements.

PLUTONIC POWER CORPORATION

Consolidated Statements of Deficit

For the years ended December 31, 2010 and 2009

	2010	2009
Deficit, beginning of year	(49,141,590)	(29,872,979)
Net loss for the year	(11,803,615)	(19,268,611)
Deficit, end of year	\$ (60,945,205)	\$ (49,141,590)

Consolidated Statements of Accumulated Other Comprehensive Loss

For the years ended December 31, 2010 and 2009

	2010	2009
Accumulated other comprehensive loss, beginning of year	\$ (343,879)	\$ (3,638,756)
Change in fair value of effective portion of interest rate swap designated as a hedge (note 12)	(5,760,107)	3,294,877
Change in fair value of interest rate swap transferred to net earnings/loss (note 12)	266,696	-
Unrealized loss on available-for-sale investment (note 6)	(549,516)	-
Reclassification of loss realized on sale of available-for-sale investment (note 6)	549,516	-
Accumulated other comprehensive loss, end of year	\$ (5,837,290)	\$ (343,879)

See accompanying notes to the consolidated financial statements.

PLUTONIC POWER CORPORATION

Consolidated Statements of Cash Flows

For the years ended December 31, 2010 and 2009

	2010	2009
Cash provided by (used in):		
Operating activities:		
Net loss for the year	\$ (11,803,615)	\$ (19,268,611)
Items not affecting cash:		
Amortization expense	895,617	68,210
Share-based compensation	1,771,724	1,413,827
Power project development costs written-off	-	34,900
Prepaid guarantee fee amortization	-	736,293
Prepaid expense amortization	1,462	-
Loss on disposal of investment	549,516	-
Accretion of long-term debt	33,900	-
Unrealized loss (gain) on interest rate swap contracts	(3,003,310)	6,725,614
Recognition of deferred gain	(77,092)	-
	(11,631,798)	(10,289,767)
Changes in non-cash working capital:		
Accounts receivable	(240,684)	-
Interest and other receivables	158,283	594
HST / GST recoverable	54,232	546,019
Prepaid expenses	(333,642)	179,896
Accounts payable and accrued liabilities	4,579,268	(3,402,540)
Interest and fees payable	113,029	331,567
Adjustment for non-cash working capital relating to power project development costs and property, plant and equipment	(2,079,667)	2,761,463
	(9,380,979)	(9,872,768)
Investing activities:		
Power project development costs	(2,810,464)	(14,855,416)
Intangible asset payments	(418,486)	(801,529)
Property, plant and equipment purchases	(80,896,636)	(157,533,147)
Pre substantial completion revenue	15,738,320	-
Performance security deposits	-	(151,458)
Builder's lien holdback deposit account	14,553,961	(8,472,841)
Builder's lien holdback payable	(15,061,223)	8,232,395
Proceeds on sale of investment	3,065,131	-
Investment in TMGP, net	-	(18,000,000)
	(65,829,397)	(191,581,996)
Financing activities:		
Common shares issued for cash	96,228	70,479,800
Share issue costs	-	(3,856,856)
Long-term debt, net of financing fees	33,656,531	160,863,904
Restricted cash	41,975,384	(40,088,795)
	75,728,143	187,398,053
Increase (decrease) in cash	517,767	(14,056,711)
Cash, beginning of year	14,403,920	28,460,631
Cash, end of year	\$ 14,921,687	\$ 14,403,920

Supplementary cash flow information (note 17)

See accompanying notes to the consolidated financial statements.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

1. Operations:

Plutonic Power Corporation (the "Company") and all of its wholly owned subsidiaries and partially owned entities are domiciled in the Province of British Columbia ("BC"), Canada. The Company's principal business operations are the identification, development, construction and the operation of clean electricity projects.

In 2007, the Company and its partner GE Energy Financial Services ("GE"), formed the Toba Montrose General Partnership ("TMGP"), a general partnership formed under the laws of BC, to own, finance, build and operate the East Toba River and Montrose Creek run-of-river hydro-electric project ("Toba Montrose") in conjunction with our First Nations partners, the Klahoose, Sliammon and Sechelt First Nations. Toba Montrose includes two separate generation facilities and 155 kilometers ("km") of transmission line which interconnects the generation facilities to a BC Hydro and Power Authority ("BC Hydro") substation at Saltery Bay, BC. The Company and GE hold a 40% and 60% respective interest in TMGP. TMGP has a 35 year Electricity Purchase Agreement ("EPA") with BC Hydro to sell all the electricity generated by Toba Montrose, and the two facilities are expected to annually generate 710,000 – 730,000 megawatt hours ("MWh") of electricity.

During the second quarter of 2010, TMGP began selling electricity generated by the East Toba River generation facility and by the Montrose Creek generation facility during the third quarter of 2010. Electricity sales in the second and third quarter of 2010 were netted against Property, Plant and Equipment, since the operation of Toba Montrose remained under the control of the contractor while final performance tests were completed.

On November 1, 2010, TMGP's contractor substantially completed the construction of Toba Montrose and TMGP assumed full operational control of the Toba Montrose generation and transmission facilities. Revenue from the sale of electricity beginning November 1, 2010 was recognized in net earnings/loss.

In February 2011, the TMGP partners funded their respective share of the \$20.0 million Toba Montrose construction cost contingency. The Company funded its 40% share from an \$8.0 million short-term loan from GE, which bears interest at 12% per annum, is secured against the Company's interest in TMGP and is repayable by July 1, 2011. Concurrent with the funding of the construction cost contingency, the TMGP construction loans were converted to operating loans.

In 2009, the Company and GE formed the Dokie General Partnership ("DGP"), a general partnership formed under the laws of BC, to acquire, finance, complete the construction of and operate the Dokie Wind Farm in conjunction with our First Nations partners, the Halfway River, West Moberly and Sauteau First Nations and McLeod Lake Indian Band. The Company and GE hold a 51% and 49% respective interest in DGP. In December 2009, DGP acquired certain assets related to the Dokie Wind Farm from EarthFirst Canada Inc. and third parties. DGP arranged debt financing of \$175 million and the Company and GE contributed \$52.5 million as project equity, of which the Company's 51% proportionate contribution was \$26.8 million, to finance the completion of the Dokie Wind Farm.

The Dokie Wind Farm is located 1,100 km northeast of Vancouver, near Chetwynd, BC and it consists of 48 3-MW wind turbines that are expected to annually generate 320,000 – 340,000 MWh of electricity. On February 17, 2011, the Dokie Wind Farm met its guaranteed commercial operations date ("COD") commitments under a 25 year EPA and commenced selling electricity to BC Hydro.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

1. Operations (continued):

In 2008, the Company and GE signed a memorandum of understanding (“MOU”) to jointly bid the Upper Toba Valley and Bute Inlet run-of-river hydro-electric projects into the BC Hydro 2008 Request for Proposals (“BC Hydro 2008 RFP”). On April 28, 2010, the Company and GE entered into a 40 year EPA with BC Hydro for the modified Upper Toba Valley Project that now includes two power sites with a combined expected annual generation of 330,000 – 340,000 MWh of electricity. The original proposal included a third power site, which was removed during discussions with BC Hydro because of concerns about capacity constraints on a BC Hydro transmission line between Saltery Bay and Malaspina. Negotiations with BC Hydro for an EPA on the Bute Inlet Project did not move ahead at that time in order to allow for further data collection, studies, due diligence and market assessment.

With the change in size of the Upper Toba Valley Project, the Company and GE are in the process of updating an assessment of the project.

The Company and GE formed the ABW Solar General Partnership (“ABWSGP”) in late December 2010 to acquire a 50-megawatt portfolio of three photovoltaic solar facilities, located in Amherstburg, Belmont and Walpole, Ontario (“ABW Solar”). Permitting the projects under the Ontario Renewable Energy Approval process is expected in the spring of 2011. Construction is expected to begin by mid-2011. On commencement of commercial operations by ABW Solar, the Company has the option to make an equity contribution of approximately \$6 million to earn a 10% interest in ABW Solar, and to serve as the projects’ managing partner. As at December 31, 2010 no transactions had been entered into by ABWSGP.

Toba Montrose and the Dokie Wind Farm are now fully operational and are expected to generate positive cash flow during 2011. Distribution of cash flows from the partnerships to the partners requires resolution of remaining conditions in the loan agreements and conversion of the DGP construction loan to an operating loan as provided for in the loan agreement. As such, during the next twelve months, the Company will need to access additional working capital. The amount required will be dependent on the timing and results of work currently underway at both the Upper Toba Valley Project and the potential Dokie Wind Expansion Project. As well, further funds will be required for the continued development of the Company’s other power projects, repayment of the \$8 million short-term loan used to fund its 40% share of TMGP’s construction cost contingency, and funding of the Company’s option to earn a 10% interest in ABW Solar.

In conjunction with the announcement of an arrangement agreement to merge with Magma Energy Corp. (see note 19), on March 7, 2011 the Company announced that Magma Energy Corp. has subscribed for a \$10 million unsecured convertible debenture from the Company, subject to regulatory approvals. The convertible debenture will bear interest at 8% per annum and will mature on August 31, 2011 and can be convertible into the Company’s common shares at any time at the option of Magma Energy Corp., at a conversion price of \$2.90 per common share. The proceeds of the convertible debenture would be used to repay the Company’s \$8 million TMGP construction cost contingency loan, and for working capital purposes.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

2. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements include the accounts of Plutonic Power Corporation and its wholly owned subsidiary companies, Plutonic Hydro Inc., Plutonic TMP Holdings Inc., Upper Toba Hydro Inc., Bute Hydro Inc., Plutonic Dokie Holdings Inc., Plutonic Dokie Expansion Holdings Inc., Stave Point Holdings Inc., Jimmie Hydro Inc., Dalgleish Hydro Inc., Plutonic Solar Inc., Plutonic ABW Solar Inc. and Plutonic Upper Toba Holdings Inc. All significant transactions and balances between the Company and its subsidiaries have been eliminated upon consolidation.

The Company accounts for its 40% economic interest in TMGP and its 51% economic interest in DGP using the proportionate consolidation basis as the Company shares joint control over the economic activity of the partnerships. Accordingly, the Company includes in these consolidated financial statements its respective 40% share of TMGP and its 51% share of DGP assets, liabilities, revenue and expenses.

(b) Use of estimates:

The preparation of consolidated 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, liabilities, and commitments at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting periods. Significant items subject to such management estimates and assumptions include the recoverability of power project development costs, property, plant and equipment and intangible assets, the determination of the fair value of interest rate swap contracts, share based compensation, the allocation of the purchase price for the Dokie Project, and the determination of future income taxes. Actual results could differ from the estimates and assumptions made in the preparation of these consolidated financial statements.

(c) Cash:

Cash consists of deposits and short term investments with a senior Canadian bank.

(d) Financial instruments:

All financial assets and liabilities are recognized when the Company becomes a party to the contract creating the item at fair value. Changes in the fair value of held for trading financial instruments are recognized in net earnings/loss. Changes in the fair value of interest rate swap contracts are discussed in note 2(j) and changes in the fair value of available-for-sale financial assets are recorded in other comprehensive income. Loans and receivables and other liabilities are subsequently measured at amortized cost.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

2. Significant accounting policies (continued):

(e) Power project development costs:

The Company capitalizes direct costs associated with development of its power projects. Costs associated with successful projects are amortized over the useful life of the projects upon commencement of commercial production. Costs of unsuccessful projects are written off in the period the project is abandoned or when recovery of such costs can no longer be reasonably regarded as assured.

The recovery of power project development costs is dependent upon the successful completion of the projects or the sale of projects to third parties. The successful completion of the power projects is dependent upon receiving the necessary water, environmental and other licences, being awarded an EPA, obtaining the necessary project financing to successfully complete the development and construction of the projects, and the long-term generation and sale of electricity on a profitable basis.

(f) Property, plant and equipment:

Computer equipment, office equipment, leasehold improvements and vehicles are recorded at cost. Amortization is recorded using the declining balance method at an annual rate of 30% for computer equipment, 20% for office equipment and 30% for vehicles. Amortization of leasehold improvements is recorded using the straight-line method over the term of the applicable lease.

Electricity generating facilities, transmission lines, and other costs associated with the construction of Toba Montrose and the Dokie Wind Farm are carried at cost and consist of direct labour, material and equipment costs, engineering and project development costs and other costs incurred that are incremental and directly attributable to the development and construction of the projects.

Net incremental project financing costs that are directly attributable to the development and construction of the projects are capitalized. Capitalization of net financing costs ceased at TMGP on November 1, 2010 and at DGP on February 17, 2011.

Amortization of the Toba Montrose facility commenced on November 1, 2010. Amortization is recorded using the straight line method applying the estimated lives of the major facility components, which range from 2 to 70 years.

(g) Intangible assets:

Intangible assets include project permits and licenses, the EPA with BC Hydro, prepaid land tenure license amounts, First Nations Impact Benefits Agreements ("IBA") and Memoranda of Understanding ("MOU") costs for Toba Montrose and the Dokie Wind Farm, and software. Payments made to First Nations under the terms of the IBAs and MOUs were capitalized to intangible assets prior to the commencement of commercial operations, after which time such payments are now expensed in net earnings/loss.

TMGP's prepaid land tenure licenses are amortized on a straight-line basis over the 39 year term of the licenses, commencing on construction of Toba Montrose. Other TMGP intangible assets began amortization on commencement of commercial operation of Toba Montrose on a straight-line basis over the 35 year term of its EPA, applicable permits and agreements. DGP's intangible assets commenced amortization on a straight-line basis over the 25 year term of its EPA and agreements.

Software is amortized using the declining balance method at an annual rate of 45%.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

2. Significant accounting policies (continued):

(h) Impairment of long-lived assets:

Long-lived assets, including power project development costs, property, plant and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. Recoverability of assets is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount that the carrying amount of the asset exceeds its fair value.

(i) Asset retirement obligations:

Asset retirement obligations are recognized in the period in which they are incurred if a reasonable fair value estimate can be determined. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The liability is accreted over the estimated time period until settlement of the obligation and the asset is amortized over the estimated useful life of the asset.

The fair value of the asset retirement obligations for Toba Montrose and the Dokie Wind Farm cannot be reasonably estimated due to the long service life of these assets and the low probability that these projects would ever be abandoned due to the renewable nature of the electricity being generated. Accordingly, the Company has made no provision for asset retirement obligations as at December 31, 2010 and 2009.

(j) Interest rate swap contracts:

TMGP uses interest rate swaps to manage its exposure to fluctuations in interest rates on its floating rate loan (note 12). The interest rate swap contracts are derivative financial instruments and are recognized on the balance sheet and measured at fair value with changes in fair value recognized in net earnings/loss, except for the effective portion of the interest rate swap contracts designated as a cash flow hedge, which is recognized in accumulated other comprehensive loss.

(k) Revenue recognition:

Revenue is recognized from power generation upon metered delivery of electricity to BC Hydro.

Revenue is recognized from the ecoEnergy for Renewable Power ("ecoEnergy") program (note 3(g)) upon metered eligible production of power, up to an annual maximum of 726,950 MWh for the Toba Montrose facilities and 333,000 MWh for the Dokie Wind Farm, for a period of ten years respectively.

(l) Income taxes:

The Company follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in income tax rates on future tax assets and liabilities is recognized in net earnings/loss in the year in which the change occurs. A future income tax asset is recorded when the probability of realization is more likely than not.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

2. Significant accounting policies (continued):

(m) Share-based compensation:

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

(n) Determining whether an arrangement contains a lease:

At inception of an arrangement, such as an electricity purchase agreement, the Company determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Company the right to control the use of the underlying asset.

(o) Loss per common share:

Basic loss per common share is calculated by dividing the net loss for the period by the weighted average number of common shares of the Company that were outstanding in the period. Diluted loss per common share includes the potential dilution from common share equivalents, such as stock options and warrants. The treasury stock method is used 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 reporting period.

For the years ended December 31, 2010 and 2009, diluted loss per common share was the same as basic loss per common share as the effect of all outstanding options and warrants would be anti-dilutive.

(p) Comparative figures:

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

(q) Future changes in accounting standards:

International Financial Reporting Standards:

In February 2008 the Canadian Accounting Standards Board ("AcSB") confirmed the use of International Financial Reporting Standards ("IFRS") to commence in 2011 for publicly-listed companies. IFRS will replace Canada's Generally Accepted Accounting Principles ("GAAP") and the official changeover date is for interim and annual financial statements relating to fiscal periods beginning on or after January 1, 2011.

The Company will adopt IFRS according to requirements outlined by the AcSB and with adoption on January 1, 2011. The Company has identified the following areas as having significant accounting policy changes and impact on the Company's consolidated financial statements and disclosures when IFRS is adopted:

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

2. Significant accounting policies (continued):

(q) Future changes in accounting standards (continued):

Investments in Joint Ventures

IAS 31 – *Investments in Joint Ventures* is currently under revision and the new standard is expected to be finalized in 2011. It is expected that the revisions to IAS 31 will require investments in joint ventures to be accounted for using the equity method, although under the existing standard both equity accounting and the proportionate consolidation method are permitted. This likely change will result in the Company changing its method of accounting for its investments in TMGP and DGP from proportionate consolidation to the equity method and therefore the Company has chosen to adopt this approach on adoption of IFRS.

Financial Instruments

IAS 39 – *Financial Instruments* will be applied prospectively in the opening IFRS statement of financial position as this is required under IFRS 1 as a mandatory exemption. The cash flow hedge currently held by TMGP is tested for effectiveness on a quarterly basis. Under Canadian GAAP, the hedge effectiveness testing and measurement of ineffectiveness excludes the credit risk of the party or counter-party (depending on whether the hedge is in an asset or a liability position). Under IAS 39, the hedge effectiveness testing and measurement of ineffectiveness should include the credit risk of the party or counter-party. This may result in the hedge becoming ineffective or a change to the amount of the hedge that is effective and ineffective. The Company has put in place the appropriate IAS 39 compliant hedging documentation at January 1, 2010 and the hedge continues to be effective on January 1, 2010 and December 31, 2010.

Share-Based Compensation

IFRS 2– *Share Based Payments* will be applied prospectively in the opening IFRS statement of financial position, as the Company has elected to apply the IFRS 1 exemption. Under IFRS each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches. Currently under Canadian GAAP these awards are calculated as one grant and the resulting fair value is recognized on a straight-line basis over the vesting periods.

Accounting For Service Concession Arrangements

IFRIC 12 – *Service Concession Arrangements*: The standard applies to a situation whereby a private sector entity constructs and / or operates an infrastructure used to provide public services.

The Company has completed its assessment of IFRIC 12 and has concluded that the DGP EPA with BC Hydro is considered a service concession arrangement. The Company is in the process of finalizing the impact of this change on its consolidated financial statements as at January 1, 2010.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

3. Investment in Toba Montrose General Partnership:

- (a) In 2007, the Company contributed Toba Montrose and related permits, licences, IBAs with the Klahoose and Sliammon First Nations and its EPA with BC Hydro to TMGP. In return, 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% for no additional consideration and its partner's economic interest in TMGP will decrease from 60% to 49%.

The fair value of the intangible assets contributed by the Company to TMGP was \$36.7 million. The Company included in these consolidated financial statements its proportionate share of the original cost of the assets contributed and deferred the \$16.2 million gain on contribution of these assets. This deferred gain is being amortized over the 35 year life of the BC Hydro EPA. Upon commencement of commercial operation the Company began amortizing this deferred gain during 2010 with \$153,647 recorded in Property Plant and Equipment and \$77,092 recognized in net earnings/loss following achievement of substantial completion on November 1, 2010.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

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

- (b) The Company's economic interest in the assets, liabilities, revenue and expenses and cash flows of TMGP, accounted for under the proportionate consolidation method, are included in these consolidated financial statements as follows:

	2010	2009
Cash	\$ 4,801,840	\$ 1,778,234
Restricted cash	1,547,363	3,632,819
Builder's lien holdback deposit account	-	16,980,220
Accounts receivable	413,106	-
Interest and other receivables	11,274	11,577
HST / GST recoverable	22,284	245,863
Prepaid expenses	184,922	109,049
Performance security deposits	150,000	150,000
Property, plant and equipment	228,770,523	198,614,482
Intangible assets	5,524,996	5,232,310
	241,426,308	226,754,554
Accounts payable and accrued liabilities	5,251,956	4,854,460
Interest and fees payable	863,115	750,086
Builder's lien holdback payable	-	17,479,112
Long-term debt	185,368,592	151,644,675
Interest rate swap contracts	16,191,713	13,701,612
	207,675,376	188,429,945
Net assets	\$ 33,750,932	\$ 38,324,609

	2010	2009
Operating income	\$ 948,946	\$ -
Operating expenses	(1,452,238)	-
Interest expense	(2,003,886)	-
Other expenses	(271,964)	(232,552)
Realized and unrealized gain (loss) on interest rate swap contracts	1,540,305	(7,798,067)
Share of TMGP net loss	\$ 1,238,837	\$ 8,030,619
Cash flow from operating activities	\$ (2,740,332)	\$ (1,336,180)
Cash flow from investing activities	(29,708,262)	(91,010,390)
Cash flow from financing activities	35,472,200	81,437,745

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

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

- (c) GE arranged for an affiliate to provide a \$100 million equity bridge loan facility to TMGP, which was fully drawn in 2008. During 2010, GE made a cash equity contribution of \$100 million and the proceeds were used to repay the principal amount of \$100 million under the Equity Bridge Loan in full.
- (d) A GE affiliate provided \$28 million of contingent equity and debt service reserve guarantees to TMGP's debt providers during construction of the facility and \$8 million to be provided during operations. TMGP paid the GE affiliate a 3% per annum fee on the amount of guarantees provided. In February 2011, the Company and GE have funded their pro-rata share of project cost overruns. For the year ended December 31, 2010, TMGP paid or accrued \$840,000 of guarantee fees, of which the Company's proportionate share was \$336,000 (2009 - \$840,000 and \$336,000 respectively). The guarantee fees are considered a project financing cost and are capitalized as part of property, plant and equipment up to November 1, 2010. Amounts paid subsequent to November 1, 2010 have been recorded in net earnings/loss. Following term conversion in February 2011, the construction guarantee was cancelled.
- (e) A GE affiliate 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 the year ended December 31, 2010, TMGP paid or accrued fees of \$352,800, of which the Company's proportionate share was \$141,120 (2009 - \$352,800 and \$141,120 respectively). These fees are considered a project financing cost and are capitalized as part of property, plant and equipment up to November 1, 2010. Amounts paid subsequent to November 1, 2010 have been recorded in net earnings/loss. Subsequent to the first anniversary of commencement of operations of Toba Montrose, this letter of credit is reduced to \$2.26 million.
- (f) TMGP has the following commitments:
 - (i) TMGP has a 35 year EPA with BC Hydro to supply all the electricity generated by Toba Montrose at rates which escalate yearly. Toba Montrose is expected to annually generate 710,000 – 730,000 MWh of electricity.
 - (ii) In 2007, TMGP received land tenures, water licenses and other environmental permits for the project sites, roads and transmission line from the Integrated Land Management Bureau, Ministry of Agriculture and Lands ("ILMB") and the British Columbia Ministry of the Environment and Provincial Environmental Certification from the British Columbia Environmental Assessment Office ("EAO"). The EAO certificate and environmental permits contain a number of commitments that TMGP must adhere to during the construction and operation of Toba Montrose, including mitigation measures to protect wildlife and areas of cultural significance to the Klahoose, Sliammon and Sechelt First Nations.
 - (iii) Under the provisions of its IBAs with the Klahoose, Sliammon and Sechelt First Nations, TMGP has a number of financial commitments during the construction and operation of Toba Montrose, including periods beyond the 35 year term of the EPA, if TMGP continues operations. These commitments include signing bonuses; construction access fees; continued access fees; project and training opportunities; and revenue sharing.

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

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

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

- (g) In 2009, TMGP and the Government of Canada signed an agreement under the ecoEnergy program that provides incentive funding to increase Canada's supply of electricity from renewable sources, including low-impact hydro projects such as Toba Montrose. During 2010, TMGP was awarded their EcoLogo Certificate and began receiving funding under the ecoEnergy program. TMGP is entitled to receive up to \$72.8 million in funding under the ecoEnergy program during its first ten years of operations based on \$10 per megawatt-hour of electricity generated by Toba Montrose and sold to BC Hydro.

4. Investment in Dokie General Partnership:

- (a) In 2009, the Company contributed \$26.8 million to DGP for 26,775 Class A Units of DGP, representing a 51% participating and voting interest in the partnership.
- (b) The Company's 51% interest in the assets, liabilities, expenses and cash flows of DGP, accounted for under the proportionate consolidation method, are included in these consolidated financial statements as follows:

	2010	2009
Cash	\$ 4,626,921	\$ 701,383
Restricted cash	8,340,905	48,230,833
Accounts receivable	38,382	-
Interest and other receivables	10,264	19,260
Builder's lien holdback deposit account	2,858,178	431,919
HST / GST recoverable	546,367	238,729
Prepaid expenses	291,834	38,609
Performance security deposits	21,458	21,458
Property, plant and equipment	106,207,511	64,977,869
Intangible assets	386,701	382,500
	123,328,521	115,042,560
Accounts payable and accrued liabilities	4,472,250	589,532
Builder's lien holdback payable	2,849,808	431,919
Long-term debt	87,323,688	87,189,681
	94,645,746	88,211,132
Net assets	\$ 28,682,775	\$ 26,831,428
	2010	2009
General and administrative expenses	\$ 153,060	\$ 28,496
Share of DGP net loss	\$ 153,060	\$ 28,496
Cash flow from operating activities	\$ 7,416	\$ (239)
Cash flow from investing activities	(35,971,806)	(65,024,343)
Cash flow from financing activities	39,889,928	38,950,964

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

4. Investment in Dokie General Partnership (continued):

- (c) DGP engaged a financial institution to provide \$13.8 million and \$2.5 million letters of credit to BC Hydro as part of the EPA performance bonding requirements. DGP pays this financial institution a 1% per annum fee on the face amount of the letters of credit. For the year ended December 31, 2010, DGP paid or accrued fees of \$163,330, of which the Company's proportionate share is \$83,298 (2009 - \$15,857 and \$8,087 respectively).
- (d) DGP has the following commitments:
- (i) DGP has a 25 year EPA with BC Hydro to supply all the electricity generated by the Dokie Wind Farm at rates which escalate yearly. The Dokie Wind Farm is expected to annually generate 320,000 – 340,000 MWh of electricity.
- (ii) In 2006, the Dokie Wind Farm received land tenures and other environmental permits for the project sites, roads and transmission line from the ILMB and the British Columbia Ministry of the Environment and Provincial Environmental Certification from the British Columbia EAO. The EAO certificate and environmental permits contain a number of commitments that DGP must adhere to during the construction and operation of the Dokie Wind Farm, including mitigation measures to protect wildlife and areas of cultural significance to the McLeod Lake Indian Band, the Halfway River First Nation, the West Moberly First Nation and the Sauteau First Nation.
- (iii) Under the provisions of its MOUs with the McLeod Lake Indian Band, the Halfway River First Nation, the West Moberly First Nation and the Sauteau First Nation, DGP has a number of financial commitments during the construction and operation of the Dokie Wind Farm.

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

- (e) In November 2009, DGP and the Government of Canada signed an agreement under the ecoEnergy program. In February 2011, DGP was awarded their EcoLogo certificate and became eligible to start receiving funding under the ecoEnergy program. DGP will be entitled to receive up to \$33.3 million in funding under the ecoEnergy program during its first ten years of operations based on \$10 per megawatt-hour of electricity generated by the Dokie Wind Farm and sold to BC Hydro.

5. Guarantee fees:

In 2007, an affiliate of GE provided a \$30 million guarantee to TMGP's senior debt lenders to support the Company's required \$30 million cash equity contribution. The Company issued to the GE affiliate 650,000 common share purchase warrants, which expired on 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 was recorded as a prepaid guarantee fee and it was amortized over the approximate period of the guarantee until the guarantee was no longer required. The prepaid guarantee fee was completely amortized in 2009.

The Company also paid to the GE affiliate a guarantee fee of 3% per annum on the face amount of the guarantee. For the year ended December 31, 2010, the Company did not pay any cash fees associated with the above guarantee as the guarantee was no longer required (2009 - \$825,000). The Company had pledged its assets as security against the guarantee with the GE affiliate.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

5. Guarantee fees (continued):

In exchange for providing the guarantee, the Company granted GE a right of first offer with respect to any contemplated project 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 BC Hydro 2008 RFP. In 2008, the Company and GE signed an MOU to jointly bid the Upper Toba Valley and Bute Inlet Projects into the BC Hydro 2008 RFP in November 2008.

6. Investment:

On January 1, 2010, the Company's special warrants in AltaGas Income Trust ("AltaGas") converted to full participating units with no additional consideration payable. At that time, the Company recorded the AltaGas units as an available-for-sale security and recorded them on the balance sheet at their fair value, based on the quoted market price of AltaGas each period end. Changes in the fair value of the AltaGas units were recorded in accumulated other comprehensive loss. In 2010 the Company sold its entire investment in AltaGas for net cash proceeds of \$3,065,131. The Company recorded a realized loss of \$549,516 on the sale of this investment. During 2010 the Company recorded \$162,390 as received in dividend income on the AltaGas units prior to their sale in 2010.

7. Builder's lien holdback deposit accounts:

In 2007, TMGP entered into an Engineering, Procurement, and Construction ("EPC") contract with Peter Kiewit Sons Co. ("Kiewit") for the construction of Toba Montrose. In 2009, DGP entered into an EPC contract with Mortenson Canada Corporation ("Mortenson") for the construction of the Dokie Wind Farm. These EPC contracts require 10% of construction costs invoiced by Kiewit and Mortenson to be heldback by TMGP and DGP, respectively, for payment upon completion of construction. TMGP and DGP are required to deposit the 10% heldback funds in a builder's lien holdback bank account until it is payable. Funds in the builder's lien holdback account (excluding interest earned) 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*).

During 2010, the builder's lien holdback payable by TMGP to Kiewit was paid in full.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

8. Power project development costs:

	Upper Toba Valley Project	Bute Inlet Project	Other Projects	Total
Balance, December 31, 2008	\$ 5,581,676	\$ 16,335,235	\$ 2,713,663	\$ 24,630,574
Engineering and hydrology	685,891	3,555,083	216,839	4,457,813
Permitting	870,468	6,376,524	22,100	7,269,092
Community consultations	47,976	1,520,564	1,950	1,570,490
Stock-based compensation	159,729	233,286	-	393,015
Project development costs written off	-	-	(34,900)	(34,900)
Total 2009 costs	1,764,064	11,685,457	205,989	13,655,510
Balance, December 31, 2009	7,345,740	28,020,692	2,919,652	38,286,084
Engineering and hydrology	833,752	374,501	139,141	1,347,394
Permitting	133,234	214,925	37,342	385,501
Community consultations	17,635	349,451	7,268	374,354
Financing	2,286	-	-	2,286
Stock-based compensation	38,690	16,730	-	55,420
Total 2010 costs	1,025,597	955,607	183,751	2,164,955
Balance, December 31, 2010	\$ 8,371,337	\$ 28,976,299	\$ 3,103,403	\$ 40,451,039

The Company has incurred and capitalized direct costs on 41 run-of-river hydroelectric power development projects, excluding Toba Montrose, located primarily in the southwestern region of BC. 34 of the projects are located within the Company's Green Power Corridor™, an area in southwest coastal BC, which includes drainages flowing into the Toba, Bute and Knight Inlets.

The Company's principal electricity projects, besides Toba Montrose and the Dokie Wind Farm, which are disclosed in notes 3 and 4, are as follows:

(a) Upper Toba Valley Project:

In 2006, the Company had applications for water licenses and Crown Land tenure accepted by the Water Stewardship Division, Ministry of the Environment ("MOE") and the ILMB for these three power sites. The Company then submitted the Upper Toba Valley project to the BC EAO for the construction of three run-of-river generation facilities, to be located on Dalgleish Creek, Jimmie Creek and the Upper Toba River.

The Company and GE jointly bid the Upper Toba Valley Project into the BC Hydro 2008 RFP in November 2008.

During 2009, the Company was granted a BC Provincial Environmental Assessment Certificate for the Upper Toba Valley Project. In December 2009, the Canadian Federal Government completed its screening level review under the Canadian Environmental Assessment Act, allowing the Upper Toba Valley Project to proceed.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

8. Power project development costs (continued):

(a) Upper Toba Valley Project (continued):

In March 2010, BC Hydro offered the Company and GE an EPA for a modified Upper Toba Valley Project. The Company and GE modified the Upper Toba Valley Project to include two power sites with an expected average annual generation of 330,000 – 340,000 MWh of electricity. This represents a modification from the original bid of three power sites. The Dalglish power site was removed from the Company and GE's bid during discussions with BC Hydro to address capacity constraints identified by BCTC on their transmission line between Saltery Bay and Malaspina. The Dalglish power site remains a potentially viable standalone project should the BCTC transmission line constraints between Saltery Bay and Malaspina be removed in the future. In April 2010, the Company and GE entered into a 40 year EPA with BC Hydro for the modified Upper Toba Valley Project. With the change in size of the Upper Toba Valley Project, the Company and GE are in the process of updating an assessment of the project.

The three power sites are located on tributaries of the Toba River, close to Toba Montrose, and were added to the Company's power project development portfolio during 2006. Subject to a priority use agreement, the Company has the right to use any additional unused capacity of the transmission line being built for TMGP for the Company's Upper Toba Valley Project.

(b) Bute Inlet Project:

The Bute Inlet Project consists of 17 power sites, with an estimated combined potential annual generation of approximately 2,900,000 MWh of electricity.

From 2003 through 2008, the Company applied for and had applications for water licenses and Crown Land tenure accepted by MOE and ILMB for the Bute Inlet power sites.

In 2008, the Company submitted its Bute Inlet Project into the Environmental Assessment Process. The Bute Inlet Project proposal submitted to the BC EAO, the Canadian Environmental Assessment Agency and the Major Projects Management Office was for the construction of 17 run-of-river generating facilities, organized into three interconnected groups. Seven of the sites are located in or near the Homathko River system, seven are in the Southgate River system and three are in the Orford River system. The BC EAO has issued a Section 10 order that commits the project to an environmental assessment under the Environmental Assessment Act.

In May 2009, the Federal Minister of Environment approved the Environmental Impact Assessment Guidelines for the Bute Inlet Project's Federal environmental assessment process, which would have proceeded by way of panel review. At the same time, the BC EAO issued the Terms of Reference for the Application for an Environmental Assessment Certificate.

In March 2010, the Company and GE announced negotiations with BC Hydro for an EPA on the Bute Inlet Project would not move ahead at that time in order to allow for further data collection, studies, due diligence and market assessment.

The Company remains committed to the development of the Bute Inlet Project, and will continue with cost-effective work necessary to advance the project in a manner consistent with the high standards set by Governments.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

8. Power project development costs (continued):

(c) Other Projects:

The Company has 22 other run-of-river power sites with a combined potential annual generation of approximately 2,300,000 MWh of electricity. These power sites are located primarily in the southwestern region of BC. The Company continues to collect hydrological data, conduct engineering work and perform other required studies on these power sites.

In 2009, the Company and GE acquired the rights to the Dokie Wind Expansion Project and the Company and GE's interest in these rights are 51% and 49% respectively. The Company and GE are preparing an assessment of the Dokie Wind Expansion Project scheduled to be completed by the end of the second quarter of 2011. The Dokie Wind Expansion Project has received a BC Provincial Environmental Assessment Certificate. Amendments to the certificate may be required depending on the results of the assessment.

During 2010 the application for a water license and Crown Land tenure was accepted by the MOE and ILMB for a 1,000 MW pumped storage site in south-western BC.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

9. Property, plant and equipment:

December 31, 2010	Cost	Accumulated amortization	Net book value
Toba Montrose property, plant and equipment	\$ 229,596,554	\$ 826,031	\$ 228,770,523
Dokie assets under construction	106,207,511	-	106,207,511
Computer equipment	194,183	100,255	93,928
Office equipment	128,431	54,670	73,761
Leasehold improvements	23,710	13,262	10,448
	<u>\$ 336,150,389</u>	<u>\$ 994,218</u>	<u>\$ 335,156,171</u>

December 31, 2009	Cost	Accumulated amortization	Net book value
Toba Montrose assets under construction	\$ 200,961,061	\$ -	\$ 200,961,061
Dokie assets under construction	66,977,869	-	66,977,869
Computer equipment	185,868	74,004	111,864
Office equipment	131,735	37,144	94,591
Vehicle	10,000	5,835	4,165
Leasehold improvements	23,710	6,993	16,717
	<u>\$ 268,290,243</u>	<u>\$ 123,976</u>	<u>\$ 268,166,267</u>

The construction cost of Toba Montrose was allocated to the major asset components during 2010, and amortization of the facility commenced on November 1, 2010. A summary of the Company's proportionate interest in TMGP assets is as follows:

December 31, 2010	Cost	Accumulated amortization	Net book value
East Toba River facility	\$ 81,777,604	\$ 295,307	\$ 81,482,297
Montrose Creek facility	57,321,073	247,112	57,073,961
Transmission lines and roads	88,121,014	235,053	87,885,961
Operators camp	618,756	2,578	616,178
Site equipment	11,758	1,945	9,813
Spare parts	1,651,403	-	1,651,403
Computer equipment	22,302	11,378	10,924
Office equipment	13,797	7,611	6,186
Vehicles	49,364	19,992	29,372
Leasehold improvements	9,483	5,055	4,428
	<u>\$ 229,596,554</u>	<u>\$ 826,031</u>	<u>\$ 228,770,523</u>

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

9. Property, plant and equipment (continued):

A summary of the Company's proportionate interest in TMGP's construction costs as at December 31, 2009 is as follows:

Engineering, procurement and construction costs	\$ 171,682,092
EPC issued change orders	2,327,527
Project construction management costs	6,333,114
Development costs	1,400,000
Construction insurance costs	1,241,990
BC Hydro interconnection costs	1,115,440
Land lease payments	154,153
Capital spare parts for use in operations	781,507
Capitalized net financing costs	15,925,238
	<hr/>
	\$ 200,961,061

In 2007, TMGP executed a \$497.5 million fixed-price EPC contract with Kiewit for the construction of Toba Montrose, which includes two powerhouses with weirs, intakes, penstocks, generation equipment, a 155 km transmission line, and related development costs including access roads and bridges. As at December 31, 2010, TMGP had incurred or accrued \$494.5 million under the terms of the EPC contract, of which the Company's proportionate share was \$197.8 million (2009 - \$429.2 million and \$171.7 million respectively). Final completion of Toba Montrose is expected during 2011.

During 2010, TMGP incurred and capitalized \$19.1 million (2009 - \$18.8 million) in net financing costs directly attributable to the construction of Toba Montrose. The Company's proportionate share of the capitalized net financing costs was \$7.7 million (2009 - \$7.5 million). Following substantial completion of the facility on November 1, 2010 net financing costs are recorded in net earnings/loss.

During 2010, TMGP entered into various agreements to procure assets for the continued operation of Toba Montrose. Future commitments for fixed asset purchases as at December 31, 2010 total \$1.4 million, of which the Company's proportionate share was \$0.6 million.

A summary of the Company's proportionate interest in DGP assets under construction as at December 31, is as follows:

	2010	2009
Property, plant and equipment	\$ 64,819,913	\$ 61,361,260
Engineering, procurement and construction costs	27,036,065	4,319,190
EPC issued change orders	1,478,998	-
Transformers and generators	1,004,555	231,856
Project construction management costs	4,578,584	199,301
Construction insurance costs	527,021	461,150
Capitalized net financing costs	6,821,834	405,112
Revenues prior to substantial completion	(59,459)	-
Total	<hr/>	<hr/>
	\$ 106,207,511	\$ 66,977,869

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

9. Property, plant and equipment (continued):

On December 10, 2009, DGP executed a \$56.5 million fixed-price EPC contract with Mortenson to complete the construction of the 144 MW Dokie Wind Farm, which includes the completion of the installation of wind turbines, generators, transformers, a transmission line, and related construction costs. As at December 31, 2010, DGP had incurred or accrued \$53.0 million under the terms of the EPC contract, of which the Company's proportionate share was \$27.0 million (December 31, 2009 - \$8.5 million and \$4.3 million respectively).

In December 2009, DGP entered into various agreements to procure assets for the completion of the Dokie Wind Farm. Future commitments for fixed asset purchases as at December 31, 2010 totaled \$1.2 million (December 31, 2009 - \$4.2 million), of which the Company's proportionate share was \$0.6 million (December 31, 2009 - \$2.1 million). These commitments are payable upon satisfaction of certain commissioning conditions and reliability tests.

During 2010, DGP incurred and capitalized \$12.6 million (2009 - \$0.8 million) in net financing costs directly attributable to the construction of the Dokie Wind Farm. The Company's proportionate interest in the capitalized financing costs was \$6.4 million (2009 - \$0.4 million).

10. Intangible assets:

December 31, 2010	Cost	Accumulated amortization	Net book value
Toba Montrose licenses, permits, IBAs and EPA	\$ 5,593,436	\$ 84,460	\$ 5,508,976
Toba Montrose software	21,171	5,151	16,020
Dokie IBAs	385,050	-	385,050
Dokie software	1,651	-	1,651
Software	52,010	18,685	33,325
	\$ 6,053,318	\$ 108,296	\$ 5,945,022

December 31, 2009	Cost	Accumulated amortization	Net book value
Toba Montrose licenses, permits, IBAs and EPA	\$ 5,210,806	\$ -	\$ 5,210,806
Toba Montrose software	21,504	-	21,504
Dokie IBAs	382,500	-	382,500
Software	20,023	4,505	15,518
	\$ 5,634,833	\$ 4,505	\$ 5,630,328

Toba Montrose's generation and other associated facilities have been built within the traditional territories of the Klahoose First Nation and a significant portion of the transmission line being built linking the generation facilities to BC Hydro's transmission line is located within the traditional territories of the Sliammon and Sechelt First Nations. TMGP recognizes the traditional territories of the Klahoose, Sliammon and Sechelt First Nations and have signed IBAs with these groups. These agreements were initially obtained by the Company and were contributed to TMGP as part of the Company's initial equity contribution, except for the Sechelt IBA, which was signed by TMGP.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

10. Intangible assets (continued):

Prepaid land tenure license fees are amounts paid to the BC Government for access to, and use of, the rights-of-way where the transmission line for Toba Montrose was being constructed. The licenses provide access to the rights-of-way for a term that is consistent with the EPA. These prepaid land tenure fees are amortized over the 39 year period of construction and operation of Toba Montrose.

The Dokie Wind Farm's generation facilities and other associated facilities are being built within the traditional territories of the McLeod Lake Indian Band, the Halfway River First Nation, the West Moberly First Nation and the Saulneau First Nation. DGP has MOUs with these four First Nations to facilitate their support of the construction and operation of the Dokie Wind Project. The MOUs include payments and economic development opportunities for these First Nations during the construction and operation of the Dokie Wind Farm.

11. Long-term debt:

	2010	2009
The Company's proportionate interest in TMGP's credit facilities (a)		
Fixed rate credit facility	\$ 145,836,051	\$ 140,604,675
Floating rate credit facility	39,532,542	11,040,000
	185,368,593	151,644,675
The Company's proportionate interest in DGP's loan (b)	87,323,688	87,189,681
	272,692,281	238,834,356
Less current portion of debt	(2,884,314)	-
Long-term portion of debt	\$ 269,807,967	\$ 238,834,356

(a) TMGP's Credit Facilities:

- (i) 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 Toba Montrose. The co-lead arrangers led a syndicate of financial institutions to provide TMGP with \$470 million in credit facilities.

In 2007 the credit agreement was executed and the following facilities were made available to TMGP:

- (a) 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 December 31, 2010, the lenders had funded the full \$370.0 million under this credit facility, of which the Company's proportionate interest was \$148.0 million (December 31, 2009 - \$351.5 million and \$140.6 million respectively). In February 2011 the construction loan was converted to an operating loan ("term conversion") and TMGP commenced paying interest on the loan at the reduced rate of 6.173%.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

11. Long-term debt (continued):

(a) TMGP's Credit Facilities (continued):

(b) a \$100 million, 38-year senior secured credit facility with a floating interest rate, flexible drawdowns 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) provides \$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 loan.

As at December 31, 2010, the lenders had funded the full \$100.0 million under this credit facility, of which the Company's proportionate interest was \$40.0 million (December 31, 2009 – \$27.6 million and \$11.0 million respectively).

Following the final drawdown of the credit facilities in 2010, financing fees of \$6.7 million (which were incurred to execute the credit agreement), of which the Company's proportionate interest was \$2.7 million, have been applied proportionately against the carrying value of both the fixed rate and floating rate loans, and are accreted to the long-term debt over the period of the loans using the effective interest rate method. For the year ended December 31, 2010, financing fees of \$168,467 have been accreted back to the loans, of which the Company's proportionate interest is \$67,387 (2009 - nil and nil respectively).

Prior to the final drawdown of the credit facilities, TMGP was required to pay to its lenders on a monthly basis a commitment fee of 0.375% per annum on the unused portion of the \$470 million total credit facilities.

The Company's proportionate interest in commitment fees and interest payable under the terms of the credit facilities at December 31, 2010 was \$863,115, of which \$43,145 was payable to GE Lender (December 31, 2009 - \$750,086 and \$12,729 respectively).

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

11. Long-term debt (continued):

(a) TMGP's Credit Facilities (continued):

(ii) Principal repayments:

Principal repayments for both loans are to be made by TMGP annually 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 to be 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 loan 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 loan average approximately \$7.5 million per annum over the term of repayment, of which the Company's proportionate interest is \$3.0 million, based on banker's acceptance rates as at December 31, 2010. The Company's proportionate interest in the minimum principal payments made on the last business day of each of the next five years and thereafter are as follows:

2011	\$ 1,617,456
2012	1,720,333
2013	1,829,753
2014	1,946,132
2015	2,069,913
Thereafter	178,816,413

Following 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 loan is subject to a "make-whole" payment. Prepayment of the Floating Rate loan is subject to the termination of TMGP's interest rate swap contract in respect of a principal amount equal to the principal amount prepaid and the payment of any applicable termination amounts on the swap contract.

(iii) Security pledged:

The two loans are secured by a first charge on all of the property and assets of TMGP. The Company's proportionate share of TMGP's long term debt is non-recourse to the Company.

(iv) Restricted cash:

In accordance with the terms of the credit facilities, debt was drawn down by TMGP on a specific monthly schedule that commenced in November 2007. The funds were drawn from the credit facility into a restricted escrow account. Prior to term conversion, revenue from BC Hydro was also held within the escrow account. On a monthly basis TMGP applies for funds to be released from the escrow account to pay for construction and operating costs. At December 31, 2010, a total of \$3.9 million was being held by TMGP in escrow of which the Company's proportionate interest was \$1.5 million (December 31, 2009 - \$9.1 million and \$3.6 million respectively). Following term conversion in February 2011, all remaining restricted cash was released to TMGP to record in the operating bank account.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

11. Long-term debt (continued):

(b) DGP's Loan:

- (i) DGP engaged the Manufacturers Life Insurance Company to arrange the required project debt financing. The arranger led a syndicate of financial institutions to provide DGP with a \$175 million loan. On December 7, 2009 a credit agreement was executed and the \$175 million Construction Loan was funded, of which the Company's proportionate interest is \$89.3 million. At the Term Conversion Date, or the date at which certain conditions have been met, including substantial completion of the Dokie Wind Farm, the Construction Loan automatically converts to a Term Loan, at which time it will be subject to certain debt covenants and repayment terms.

The \$175 million loan has a maturity date of the earlier of the 20th anniversary of the Term Conversion Date and expiry of the EPA, which is anticipated to be no earlier than December 31, 2030. The annual interest rate on this loan is fixed at 7.243%. Financing fees of \$4.1 million were incurred to execute the credit agreement, of which the Company's proportionate interest is \$2.1 million. These financing fees are applied against the fair value of the loan and will be accreted to the long-term debt over the period of the loan using the effective interest rate method. For the year ended December 31, 2010, financing fees of \$262,760 have been accreted back to the loan, of which the Company's proportionate interest is \$134,008 (2009 - \$15,457 and \$7,883 respectively). There was no interest payable under the terms of the loan at December 31, 2010 (December 31, 2009 – nil).

(ii) Principal repayments:

Principal repayments for the loan are to be made semi-annually until 2030 on the last business day of June and December of each year, commencing on June 30, 2011, based on a fixed repayment schedule, with a final principal payment being made on December 31, 2030. Interest is paid monthly until December 31, 2010 and then is paid quarterly for the remaining term of the loan. Annual payments of interest and principal for the loan average approximately \$16.6 million per annum over the term of repayment, of which the Company's proportionate interest is \$8.5 million. The Company's proportionate interest in the minimum principal payments over the next five years and thereafter are as follows:

2011	\$1,266,858
2012	2,045,346
2013	2,298,187
2014	2,677,221
2015	2,627,707
Thereafter	78,334,681

DGP may, at its option, prepay the applicable loan in whole or in part.

(iii) Security pledged:

The loan is secured by demand debentures and a first charge on all of the property, assets and agreements of DGP. The Company's proportionate share of DGP's long term debt is non-recourse to the Company.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

11. Long-term debt (continued):

(b) DGP's Loan:

(iv) Restricted cash:

The funds from the equity investment and the loan are held in restricted escrow accounts. On a monthly basis DGP applies for funds to be released from the escrow accounts to pay for construction costs. At December 31, 2010, a total of \$16.4 million was being held in escrow, of which the Company's proportionate interest was \$8.3 million (December 31, 2009 - \$94.6 million and \$48.2 million respectively), and was invested in short term banker's acceptances at rates of interest ranging from 0.847% to 0.857%.

12. 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 contract provided for monthly settlements from November 8, 2007 to November 1, 2010 (Short Dated Interest Rate Swap). Pursuant to the interest rate swap agreement, TMGP received interest on a notional amount at the one month Canadian dollar Bankers' Acceptance Rate from the counterparty and paid interest on the notional amount at an interest rate of 4.726% per annum. The notional amount was 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 (note 11(a)(i)(b)). On May 1, 2010 the notional amount of the swap reached the maximum amount of \$100.0 million (December 31, 2009 - \$92.6 million). TMGP and the counterparty net settled the amount owing on a monthly basis. On November 1, 2010 the short dated interest rate swap expired.

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.

On July 15, 2008, TMGP designated the Long Dated Interest Rate Swap as an accounting cash flow hedge of the interest rate exposure on the Floating Rate Facility for the period November 1, 2010 to June 30, 2045. 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 is recorded from July 15, 2008 onwards in accumulated 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/loss. The changes in the fair value of the ineffective portion of the interest rate swap contract are recorded in net earnings/loss.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

12. Interest rate swap contracts (continued):

The Company's proportionate interest in the fair value of the interest rate swap contracts have been reflected in the consolidated financial statements as liabilities as follows:

	2010	2009
Short Dated Interest Rate Swap	\$ -	\$ 3,561,440
Long Dated Interest Rate Swap	16,191,713	10,140,172
	16,191,713	13,701,612
Less: Current Portion of Interest Rate Swap Contracts	(1,505,959)	(4,218,755)
Long-term Portion of Interest Rate Swap Contracts	\$ 14,685,754	\$ 9,482,857

The Company's proportionate interest in the realized and unrealized losses on the interest rate contracts, and their classification in either the Statement of Operations or Other Comprehensive Loss, is summarized in the following table:

Period	Statement of Operations		Total	Other
	Realized gain (loss)	Unrealized gain (loss)		Comprehensive Loss Unrealized gain (loss)
Short Dated Interest Rate Swap:				
Year ended Dec 31, 2009	\$ (1,072,453)	\$ (1,378,913)	\$ (2,451,366)	\$ -
Year ended Dec 31, 2010	(1,474,129)	3,561,440	2,087,311	-
Long Dated Interest Rate Swap:				
Year ended Dec 31, 2009	-	(5,346,701)	(5,346,701)	3,294,877
Year ended Dec 31, 2010	11,124	(558,130)	(547,006)	(5,493,411)
Total				
Year ended Dec 31, 2009	\$ (1,072,453)	\$ (6,725,614)	\$ (7,798,067)	\$ 3,294,877
Year ended Dec 31, 2010	\$ (1,463,005)	\$ 3,003,310	\$ 1,540,305	\$ (5,493,411)

In March 2009, after a review of the TMGP Partnership Agreement, GE and the Company agreed to a change in the relative responsibility of the partners for the change in fair value of the two interest rate swap contracts in the case of a termination prior to their maturity by way of an amendment to the TMGP Partnership Agreement. Under the terms of the amended TMGP Partnership Agreement, the impact to the Company is as follows:

- (i) For the TMGP Short Dated Interest Rate Swap contract, which expired in November 2010, the Company was solely liable for any gains or losses in the event of an early termination of the contract. This resulted in the Company being allocated 100% of the unrealized gains and losses from the change in fair value of the TMGP short dated interest rate swap contract until it expired in November 2010. In March 2009 the Company had recorded an adjustment to reflect the resulting increase in its share of the interest rate swap contract liability and unrealized losses in net earnings/loss for the short dated interest rate swap contract.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

12. Interest rate swap contracts (continued):

- (ii) For the TMGP Long Dated Interest Rate Swap contract, which expires in June 2045, the Company is liable for the first \$13.0 million of any gains or losses in the event of an early termination of the contract. Any gains or losses resulting from the early termination of the contract in excess of \$13.0 million would continue to be allocated 60% to GE and 40% to the Company. This results in the Company being allocated 100% of the unrealized gains and losses from the change in fair value of the long dated interest rate swap contract from the inception of the long dated interest rate swap up to a maximum of \$13.0 million and 40% of the unrealized gains and losses in excess of \$13.0 million. In March 2009 the Company recorded an adjustment to reflect the resulting increase in its share in the interest rate swap contract liability in both net earnings/loss and Other Comprehensive Loss for the long dated interest rate swap contract.
- (iii) As a result of the amendment, for the three months ended March 31, 2009, the Company recorded an additional \$9.0 million of unrealized losses in net earnings/loss and recorded an additional \$2.1 million loss in Other Comprehensive Income that would not have been recognized had the amendment not been made. Realized gains or losses through normal quarterly settlements continue to be allocated 60% to GE and 40% to the Company.

13. Financial instruments:

Financial instrument assets include cash, restricted cash, performance security deposits and builder's lien holdback deposit accounts which are designated as held-for-trading and measured at fair value, and accounts receivable, interest and other receivables and HST / GST recoverable which are classified as loans and receivables and measured at amortized cost. Financial instrument liabilities include accounts payable and accrued liabilities, interest and fees payable, builder's lien holdback payable and long-term debt, which are classified 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 12).

(a) Fair values of financial instruments:

The carrying values of cash, restricted cash, performance security deposits, builder's lien holdback deposit account, accounts receivable, interest and other receivables, HST / GST recoverable, accounts payable and accrued liabilities, interest and fees payable and builder's lien holdback payable approximate their fair values due to the relatively short period to maturity of the instruments.

The fair value of the Company's proportionate interest in the TMGP fixed rate long-term debt was determined to be \$145.8 million and the carrying value was \$148.0 million at December 31, 2010 (December 31, 2009: \$127.6 million and \$140.6 million respectively), disregarding the effect of financing fees. The \$2.2 million difference was the result of the market interest rate at December 31, 2010 being higher than the contractual rate of 6.173% for the operating period. The fair value of the Company's proportionate interest in the DGP fixed rate long-term debt was determined to be \$92.6 million and the carrying value was \$89.3 million at December 31, 2010, disregarding the effect of financing fees. The \$3.3 million difference was the result of the market interest rate at December 31, 2010 being lower than the contractual rate of 7.243% for the period of the loan. The fair value of the Company's proportionate interest in the DGP fixed rate long-term debt was determined to be substantially the same as the carrying value of \$87.2 million on December 31, 2009.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

13. Financial instruments (continued):

(a) Fair values of financial instruments (continued):

The interest rate swap contracts are carried at fair value as disclosed in note 12. The fair values of the interest rate swap contracts were determined based on valuations obtained from the counter-party and by consultants to TMGP. The counterparty is a major financial institution, HSBC Bank USA.

Fair value hierarchy

The table below analyzes financial instruments carried at fair value, by valuation method.

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

(\$ thousands of Canadian dollars)	Level 1	Level 2	Level 3	Total
Cash	14,922	-	-	14,922
Restricted cash	9,888	-	-	9,888
Performance security deposits	421	-	-	421
Builder's lien holdback deposit account	2,858	-	-	2,858
Interest rate swap liability	-	16,192	-	16,192
Total	28,089	16,192	-	44,281

(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 floating rate portion of the long-term credit facilities. TMGP and the Company do not expect any credit losses due to non-performance by the counterparty to the interest rate swap contract as the counterparty is TMGP's banker, a major financial institution.

(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.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

13. Financial instruments (continued):

(c) Financial risk management (continued):

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 at December 31, 2010 arises mainly from its receivables and its cash, including its restricted cash, performance security deposits and builder's lien holdback deposit accounts. The carrying amount of these assets (approximately \$29.2 million) represents the Company's maximum exposure to credit risk. There has been no significant change to the Company's credit risk from the prior year. The Company's exposure to credit losses from accounts receivable is mitigated by the fact that the Company's Partnerships sell electricity under long-term EPA's with BC Hydro, an investment-grade utility. The Company does not have a history of credit losses and does not expect any third parties to fail to meet their obligations. The Company has no allowance for doubtful accounts at either December 31, 2010 or December 31, 2009.

The Company, TMGP and DGP limit their exposure to credit risk arising from cash by only holding cash with major financial institutions.

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 and also continuously monitors actual and projected cash flows. The Company believes that future cash flows generated through access to equity capital and banking markets and cash flows generated by TMGP and DGP upon commencement of operations of Toba Montrose and the Dokie Wind Farm, respectively, will be adequate to meet its financial obligations. The Company's overall liquidity risk has not changed significantly from December 31, 2009.

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.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

13. Financial instruments (continued):

(c) Financial risk management (continued):

(\$ thousands of Canadian dollars)	Carrying Amount	Total Contractual Undiscounted Cash Flows	Within 1 Year or on Demand	More than 1 Year but less than 2 Years	More than 2 Years but less than 5 Years	More than 5 Years
The Company's contractual maturities:						
Accounts payable and accrued liabilities	2,884	(2,884)	(2,884)	-	-	-
The Company's proportionate interest in contractual maturities:						
Accounts payable and accrued liabilities	9,724	(9,724)	(9,724)	-	-	-
Interest and fees payable	863	(863)	(863)	-	-	-
Builder's lien holdback payable	2,816	(2,816)	(2,816)	-	-	-
Long-term debt	272,692	(637,985)	(20,986)	(21,662)	(65,588)	(529,749)
Interest rate swap (net settled)	16,192	(13,489)	(1,524)	(1,284)	(1,906)	(8,775)
Total	305,171	(667,761)	(38,797)	(22,946)	(67,494)	(538,524)

Toba Montrose and the Dokie Wind Farm are now fully operational and are expected to generate positive cash flow during 2011. Distribution of cash flows from the partnerships to the partners requires resolution of remaining conditions in the loan agreements and conversion of the DGP construction loan to an operating loan as provided for in the loan agreement. As such, during the next twelve months, the Company will need to access additional working capital. The amount required will be dependent on the timing and results of work currently underway at both the Upper Toba Valley Project and the potential Dokie Wind Expansion Project. As well, further funds will be required for the continued development of the Company's other power projects, repayment of the \$8 million short-term loan used to fund its 40% share of TMGP's construction cost contingency, and funding of the Company's option to earn a 10% interest in ABW Solar.

On March 7, 2011 the Company announced that Magma Energy Corp. has subscribed for a \$10 million unsecured convertible debenture from the Company, subject to regulatory approvals. The convertible debenture will bear interest at 8% per annum and will mature on August 31, 2011 and can be convertible into the Company's common shares at any time at the option of Magma Energy Corp., at a conversion price of \$2.90 per common share. The proceeds of the convertible debenture would be used to repay the Company's \$8 million TMGP construction cost contingency loan, and for working capital purposes.

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.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

13. Financial instruments (continued):

(c) Financial risk management (continued):

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, performance security deposits, and its proportionate share of TMGP's cash, restricted cash, performance security deposits and variable rate debt and interest rate swap instruments (note 12).

At December 31, 2010 and December 31, 2009, the Company's interest-bearing financial instrument assets are as follows:

	Carrying amount	
	2010	2009
Cash	\$ 10,294,766	\$ 13,702,537
Restricted cash	1,547,363	3,632,819
Performance security deposits	400,000	400,000
Total	12,242,129	17,735,356

Based on the balances as at December 31, 2010, a change of 100 basis points ("BPS") in interest rate would have changed equity, interest income and cash by \$0.1 million for the year ended December 31, 2010. Interest income from the Company's proportionate interest in TMGP's restricted cash and performance security deposits was capitalized to property, plant and equipment in 2009 and, as such, fluctuations in interest rates for these financial instruments would not have impacted equity or earnings in 2009.

The Company's proportionate interest in DGP's cash, restricted cash, performance security deposits and builders' lien holdback deposit account are subject to interest rate risk. However, interest income from these investments is currently 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.

At December 31, 2010 and December 31, 2009, the Company's interest-bearing financial liabilities are as follows:

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

13. Financial instruments (continued):

(c) Financial risk management (continued):

	Carrying amount	
	2010	2009
Fixed rate instruments		
TMGP's Fixed rate debt (note 11(a)(i)(a))	\$ (145,984,842)	\$(140,604,675)
DGP's Fixed rate debt (note 11(b)(i)(a))	(87,323,689)	(87,189,681)
Variable rate instruments		
Floating rate debt (note 11(a)(i)(b))	\$ (39,455,363)	\$ (11,040,000)
Interest rate swap contracts (note 12)	(16,191,713)	(13,701,612)

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. Prior to substantial completion on November 1, 2010 interest costs relating to the floating rate debt were capitalized to property, plant and equipment as part of the net financing cost of assets under construction and, as such, fluctuations for these financial instruments would not have impacted equity or earnings.

For the interest rate swap contracts, a change of 100 BPS in interest rates at the reporting date would have increased (decreased) net earnings and equity by the amounts in the table below. The cash flow sensitivity is based on the amount of the actual interest rate swap contracts outstanding at December 31, 2010. Because the amount of the floating rate debt drawn matched the corresponding notional amount under the interest rate swap, the cash flow impact was nil. This analysis was performed on the same basis for 2009.

	Comprehensive income increase (decrease)		Equity increase (decrease)	
	100 BPS increase	100 BPS decrease	100 BPS increase	100 BPS decrease
December 31, 2010				
Interest rate swap contracts	\$ 5,412,414	\$ (6,602,828)	\$ 5,412,414	\$ (6,602,828)
December 31, 2009				
Interest rate swap contracts	\$ 12,666,421	\$ (8,286,639)	\$12,666,421	\$ (8,286,639)

At December 31, 2010, approximately \$4.9 million of the increase and \$6.0 million of the decrease in comprehensive income resulting from a 100 BPS change in interest rates would be recorded as part of other comprehensive income/loss, with the remainder being recorded in net earnings/loss. At December 31, 2009, approximately \$12.0 million of the increase and \$7.8 million of the decrease in comprehensive income resulting from a 100 BPS change in interest rates would be recorded as part of other comprehensive income/loss, with the remainder being recorded in net earnings/loss.

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

13. Financial instruments (continued):

(d) Capital structure and management:

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

- (i) minimize dilution to existing equity shareholders of the Company in its development and construction of its power projects until the Company can generate sufficient cash flow to finance its growth internally; and
- (ii) maintain financial flexibility in order 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 and/or enter into joint ventures to finance some or all of its project equity requirements.

The Company's capital management objectives have not changed from December 31, 2009. At December 31, 2010 neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements. In February 2011, TMGP converted the construction loan into an operating loan, making TMGP subject to financial covenants under the credit agreement which include providing a detailed calculation of the debt service coverage ratio and detailed working capital reconciliation report for the twelve month period ending on the last day of the period covered by the quarterly financial statements.

At the end of each fiscal quarter commencing with the fifth full fiscal quarter ending after the term conversion date, the debt service coverage ratio for the twelve month period ending on the last date of each such fiscal quarter will not be less than 1.0:1.0. TMGP would be subject to this financial covenant beginning in the second quarter of 2012.

DGP will be subject to certain financial covenants in their credit facility agreements upon Term Conversion.

14. Share capital:

(a) Authorized

Unlimited common shares without par value

Unlimited preferred shares without par value, issuable in series

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

14. Share capital (continued):

(b) Common shares - Issued and outstanding:

	Number of shares	Amount
Balance, December 31, 2008	44,191,503	\$ 74,116,429
Issued for cash	21,000,000	70,350,000
Share issue costs	-	(3,856,856)
Issued for cash from exercise of options	194,500	129,800
Transfer from contributed surplus on exercise of vested options	-	84,945
Adjustment from fractional rounding	2	-
Balance, December 31, 2009	65,386,005	140,824,318
Issued for cash from exercise of options	49,037	96,228
Transfer from contributed surplus on exercise of vested options	-	47,882
Balance, December 31, 2010	65,435,042	\$ 140,968,428

In 2009, the Company completed a bought deal equity financing co-led by Cormark Securities Inc., GMP Securities L.P. and Macquarie Capital Markets Canada Ltd. pursuant to which the lead underwriters purchased 21 million common shares of the Company at a price of \$3.35 per common share for net proceeds of \$66.5 million.

(c) Share purchase warrants:

The continuity of share purchase warrants during the year ended December 31, 2010 is as follows:

Expiry date	Exercise price	Balance Dec 31, 2009	Issued	Exercised	Expired	Balance, Dec 31, 2010
May 13, 2010	\$7.93	100,000	-	-	(100,000)	-
		100,000	-	-	(100,000)	-

The continuity of share purchase warrants during the year ended December 31, 2009 is as follows:

Expiry date	Exercise price	Balance Dec 31, 2008	Issued	Exercised	Expired	Balance, Dec 31, 2009
October 26, 2009	\$9.03	650,000	-	-	(650,000)	-
May 13, 2010	\$7.93	100,000	-	-	-	100,000
		750,000	-	-	(650,000)	100,000

(d) Stock options:

In 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 common 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.

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For the years ended December 31, 2010 and 2009

14. Share capital (continued):

(d) Stock options (continued):

Of the 3,395,550 options outstanding at the time of the Rolling Plan approval, 2,112,250 were transferred to the Rolling Plan and the rest remained subject to the old plan. No further options will be granted under the old plan, which will continue until all options have been exercised, terminated or expired.

The exercise price of stock options is no less than the closing price of common shares on the business day immediately preceding the date on which the option is granted. Under the Rolling plan, options 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).

Under the old plan, a number of options vest at the rate of 25% on the date of the grant and 25% every six months thereafter, while 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.

A summary of share option activity and information concerning outstanding and exercisable options at December 31, 2010 and December 31, 2009 is as follows:

	Options granted	Weighted average exercise price
Balance, December 31, 2008	4,298,500	\$ 4.65
Options granted - approved	1,330,000	2.59
Options exercised	(194,500)	0.67
Options cancelled	(50,000)	4.25
Balance, December 31, 2009	5,384,000	4.29
Options granted - approved	1,163,800	3.36
Options exercised	(49,037)	1.96
Options cancelled	(709,024)	5.39
Balance, December 31, 2010	5,789,739	\$ 3.99

The following table summarizes information concerning outstanding and exercisable options at December 31, 2010:

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14. Share capital (continued):

(d) Stock options (continued):

Grant date	Expiry date	Number outstanding	Weighted average exercise price	Weighted remaining contractual life (in years)	Vested and exercisable	
					Number	Weighted average exercise price
Mar 27, 2006	Mar 26, 2011	100,000	\$0.80	0.24	100,000	\$0.80
June 7, 2006	June 6, 2011	302,000	1.65	0.43	302,000	1.65
July 10, 2006	July 9, 2011	190,000	1.63	0.52	190,000	1.63
July 25, 2006	July 24, 2011	150,000	2.12	0.56	150,000	2.12
Dec 18, 2006	Dec 17, 2011	74,000	2.80	0.96	74,000	2.80
Mar 27, 2007	Mar 26, 2012	350,000	4.20	1.24	350,000	4.20
Mar 28, 2007	Mar 27, 2012	1,233,000	4.25	1.24	1,233,000	4.25
Apr 20, 2007	Apr 19, 2012	230,000	5.28	1.30	230,000	5.28
July 11, 2007	July 10, 2012	27,500	7.80	1.53	27,500	7.80
Sept 13, 2007	Sept 12, 2012	47,500	6.90	1.70	47,500	6.90
Apr 15, 2008	Apr 14, 2013	785,000	7.70	2.29	708,681	7.70
Sept 8, 2008	Sept 7, 2013	138,340	6.40	2.69	107,598	6.40
Nov 25, 2008	Nov 24, 2013	30,000	2.16	2.90	20,833	2.16
Mar 24, 2009	Mar 23, 2014	739,799	2.10	3.23	431,549	2.10
Sept 28, 2009	Sept 27, 2014	250,000	3.43	3.74	104,167	3.43
Nov 10, 2009	Nov 9, 2014	100,000	3.15	3.86	36,111	3.15
Jan 28, 2010	Jan 28, 2015	807,600	3.46	4.08	-	3.46
May 12, 2010	May 11, 2015	200,000	3.06	4.36	-	3.06
May 25, 2010	May 24, 2015	10,000	2.95	4.40	-	2.95
Nov 29, 2010	Nov 28, 2015	25,000	2.23	4.91	-	2.23
		5,789,739	\$3.99	2.26	4,112,939	\$4.24

As at December 31, 2010, there were 879,000 options outstanding under the old stock option plan, 4,910,739 under the rolling plan, and 1,632,765 options available for grant under the rolling stock option plan.

The weighted average grant-date fair value of stock options granted during year ended December 31, 2010 was \$1.67 per common share (2009 - \$1.27 per common share). 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:

	2010	2009
Risk-free interest rate	1.8% to 1.9%	2.0% to 2.5%
Expected life	4.0 to 4.4 years	3.3 to 4.9 years
Expected volatility	55% to 57%	58% to 68%
Expected dividend yield	Nil	Nil

Subsequent to December 31, 2010, the Company granted and approved 50,000 stock options at an exercise price of \$2.26 per common share to employees of the Company. In addition, 5,000 options with an exercise price of \$3.46 per common share were cancelled and 46,140 options were exercised at various prices per common share.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

15. Contributed surplus:

Balance, December 31, 2008	\$ 12,342,202
Share-based compensation expense	1,413,827
Fair value of options and warrants capitalized to power project costs	393,015
Fair value of options capitalized to property, plant and equipment	84,682
Transfer to share capital on exercise of vested options	(84,945)
Balance, December 31, 2009	14,148,781
Share-based compensation expense	1,771,724
Fair value of options capitalized to power project costs	55,420
Fair value of options capitalized to property, plant and equipment	41,770
Transfer to share capital on exercise of vested options	(47,882)
Balance, December 31, 2010	\$ 15,969,813

16. Income taxes:

The significant components of the Company's future income tax assets and liabilities at December 31, 2010 and 2009 are as follows:

	2010	2009
Future income tax assets:		
Loss carry forwards	\$ 16,530,383	\$ 12,830,283
Eligible capital property	87,271	87,606
Interest rate swap contracts	4,047,928	3,425,403
Deferred gain on transfer of assets	1,994,727	2,023,636
Share issue costs	1,256,521	1,409,734
Total future income tax assets	23,916,830	19,776,662
Future income tax liabilities:		
Power project development costs	(5,717,227)	(5,308,725)
Property, plant and equipment	(611,228)	(752,261)
Intangible assets	(902,537)	(866,780)
Investment in partnerships	(2,685,130)	(2,632,577)
Total future income tax liabilities	(9,916,122)	(9,560,343)
Net future income tax asset	14,000,708	10,216,319
Valuation allowance	(14,000,708)	(10,216,319)
Net future income tax	\$ -	\$ -

The Company's income tax expense differs from the amounts computed by applying the combined federal and provincial income tax rate of 28.50% (2009 – 30.00%) to pre-tax losses as a result of the following:

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

16. Income taxes (continued):

	2010	2009
Loss before income taxes	\$ 11,803,615	\$ 19,268,611
Statutory tax rate	28.5%	30.0%
Recovery of income taxes based on statutory income tax rates	\$ 3,364,030	\$ 5,780,583
Increase (decrease):		
Effect of change in valuation allowance	(3,784,390)	(3,583,519)
Effect of non-deductible items	(593,589)	(912,779)
Change due to change in statutory tax rate	(342,043)	(255,108)
Tax amounts related to other comprehensive income	1,565,622	(988,463)
Effect of expired losses	(19,185)	-
Other	(190,450)	(40,714)
Future income tax recovery	\$ -	\$ -

At December 31, 2010, the Company has unrecognized non-capital losses for income tax purposes of approximately \$62.6 million (2009 - \$51.3 million) that may be used to offset future taxable income. These losses, if not utilized, will expire between 2014 and 2030.

17. Supplemental cash flow information:

	2010	2009
Supplementary information:		
Interest and fees paid	\$ 16,578,699	\$ 7,560,054
Interest received	346,079	263,359
Non-cash transactions:		
Fair value of options and warrants capitalized to power project development costs	55,420	393,015
Fair value of options for TMGP employees capitalized to property, plant and equipment	41,770	84,682
Accretion of long-term debt capitalized to property, plant and equipment	167,494	7,883
Amortization of intangible assets capitalized to property, plant and equipment	63,132	-
Amortization of the deferred gain credited to property, plant and equipment (note 3)	153,647	-
Cash is comprised of:		
Cash of the Company (excluding TMGP and DGP)	\$ 5,492,926	\$ 11,924,303
Company's proportionate interest in cash of TMGP	4,801,840	1,778,234
Company's proportionate interest in cash of DGP	4,626,921	701,383
	\$ 14,921,687	\$ 14,403,920

PLUTONIC POWER CORPORATION

Notes to the Consolidated Financial Statements

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18. Commitments:

In addition to commitments previously disclosed in notes 1, 3, 4, 9 and 11, the Company's minimum future payments for various maintenance and operational commitments, including its proportionate share of TMGP's and DGP's commitments, are as follows:

2011	\$ 6,813,777
2012	4,088,720
2013	3,918,746
2014	3,909,146
2015	3,909,146
Thereafter	22,819,153
Total	\$ 45,458,688

19. Subsequent events:

On March 7, 2011, the Company and Magma Energy Corp. ("Magma") announced that they have entered into an arrangement agreement to merge and create Alterra Power Corp. Under the terms of the arrangement agreement, each shareholder of the Company will receive 2.38 common shares of Magma for each common share held of the Company.

Completion of the merger is conditional on approval from both the Company's shareholders and the shareholders of Magma at special meetings expected to be held in April 2011, and satisfaction of other customary approvals, including regulatory, stock exchange and court approvals.