

PLUTONIC POWER CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

Six Months Ended June 30, 2005

(Unaudited – prepared by management)

FORM 51- 102F1

PLUTONIC POWER CORPORATION

Consolidated Balance Sheets

(Unaudited – prepared by management)

	June 30	December 31
	2005	2004
ASSETS		
Current		
Cash	\$ 913,327	\$ 1,923,424
Accounts receivable	39,523	31,235
Prepaid financing costs	<u>--</u>	<u>5,000</u>
	952,850	1,959,659
Power Projects (Note 4)	2,649,391	1,803,706
Equipment (Note 5)	<u>5,477</u>	<u>6,437</u>
	<u>\$ 3,607,718</u>	<u>\$ 3,769,802</u>
LIABILITIES		
Current		
Accounts payable	\$ 104,657	\$ 104,250
Future Income Taxes	<u>567,000</u>	<u>567,000</u>
	<u>671,657</u>	<u>671,250</u>
SHAREHOLDERS' EQUITY		
Share Capital (Note 6)	4,003,379	3,802,368
Contributed Surplus (Note 6)	415,681	219,058
Deficit	<u>(1,482,999)</u>	<u>(922,874)</u>
	<u>2,936,061</u>	<u>3,098,552</u>
	<u>\$ 3,607,718</u>	<u>\$ 3,769,802</u>

APPROVED BY THE BOARD

“Donald A. McInnes” Director

“R. Stuart Angus ” Director

PLUTONIC POWER CORPORATION

Consolidated Statements of Loss & Deficit
(Unaudited – prepared by management)

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Expenses				
Amortization	\$ 480	\$ --	\$ 960	\$ --
Corporate development	20,625	--	36,250	--
Dues and subscriptions	477	--	1,655	1,230
Government and Community relations	18,280	--	49,500	--
Management fees	75,795	9,294	101,253	17,688
Office	25,106	10,323	36,874	6,627
Professional fees	8,177	22,143	13,060	22,142
Rent	10,432	3,700	19,583	5,200
Share-based compensation (Note 6)	119,560	62,560	232,623	93,872
Support services	9,200	5,100	15,800	6,750
Transfer agent and listing fees	7,372	2,971	14,007	25,421
Travel and promotion	<u>25,863</u>	<u>--</u>	<u>42,242</u>	<u>6,187</u>
	321,367	116,091	563,807	185,117
Less Interest Income	<u>(1,727)</u>	<u>--</u>	<u>(3,682)</u>	<u>---</u>
Loss Before the Following	319,640	116,091	560,125	185,117
Tide Property Costs Written Off	<u>--</u>	<u>--</u>	<u>--</u>	<u>30,000</u>
Net Loss	319,640	116,091	560,125	215,117
Deficit, Beginning of Period	<u>1,163,359</u>	<u>554,583</u>	<u>922,874</u>	<u>455,557</u>
Deficit, End of Period	<u>\$ 1,482,999</u>	<u>\$ 670,674</u>	<u>\$ 1,482,999</u>	<u>\$ 670,674</u>
Basic and Diluted Loss Per Share	<u>\$ 0.03</u>	<u>\$ 0.02</u>	<u>\$ 0.05</u>	<u>\$ 0.04</u>
Weighted Average Number of Shares Outstanding	<u>12,473,460</u>	<u>5,096,166</u>	<u>12,282,010</u>	<u>5,375,500</u>

PLUTONIC POWER CORPORATION

Consolidated Statement of Cash Flows
(Unaudited – prepared by management)

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Cash Flows Used For Operating Activities				
Interest received	\$ 1,727	\$ --	\$ 3,682	\$ --
Cash paid for supplies and services	<u>(103,531)</u>	<u>(440,312)</u>	<u>(226,844)</u>	<u>(489,490)</u>
	<u>(101,804)</u>	<u>(440,312)</u>	<u>(223,162)</u>	<u>(489,490)</u>
Cash Flows Used For Investing Activities				
Proceeds from sale of investment	--	--	--	6,500
Power project expenditures	<u>(449,667)</u>	<u>(93,635)</u>	<u>(845,685)</u>	<u>(134,228)</u>
	<u>(449,667)</u>	<u>(93,635)</u>	<u>(845,685)</u>	<u>(127,728)</u>
Cash Flows From Financing Activities				
Share subscriptions received	36,000	245,000	58,750	245,000
Share issue costs	--	(29,329)	--	(29,329)
Loan payment	<u>--</u>	<u>(126,838)</u>	<u>--</u>	<u>(126,838)</u>
	<u>36,000</u>	<u>88,833</u>	<u>58,750</u>	<u>88,833</u>
Decrease in Cash	(515,471)	(445,114)	(1,010,097)	(528,385)
Cash, Beginning of Period	<u>1,428,798</u>	<u>509,718</u>	<u>1,923,424</u>	<u>592,989</u>
Cash, End of Period	<u>\$ 913,327</u>	<u>\$ 64,604</u>	<u>\$ 913,327</u>	<u>\$ 64,604</u>

Supplementary Information on Non-Cash Transactions

Share issued for mineral property interest	\$ --	\$ --	\$ --	\$ 30,000
Mineral Property Interests abandoned	--	--	--	30,000
Shares issued for acquisition of subsidiary company	--	490,400	106,261	490,400

PLUTONIC POWER CORPORATION

Notes to Financial Statements

June 30, 2005

(Unaudited – prepared by management)

1. OPERATIONS

The Company was incorporated on May 18, 1999, under the name 585571 B.C. Ltd., pursuant to the provisions of the Company Act, British Columbia. The Company's name became Plutonic Power Corporation on May 13, 2004. During 2003, the Company changed its year end from June 30 to December 31.

On May 17, 2004, the Company acquired all of the outstanding shares of Plutonic Hydro Inc., formerly 648795 B.C. Ltd. (Notes 2 and 4). The Company and Plutonic Hydro Inc., are collectively referred to in these financial statements as the "Company". The Company's principal operations are now the acquisition and permitting of and ultimately the construction and operation of independent power generation projects in British Columbia (Note 4). To date the Company has incurred costs on eighteen different sites located in the British Columbia, with annual estimated power generation capacity at the sites ranging from 10 to 120 MW. The Company has submitted applications for water licenses and attendant Crown land rights for these sites and successfully completed stages 1 and 2 of the permitting processes as governed by Land and Water British Columbia Inc., a Crown corporation of the Government of British Columbia. The subsequent development of the Company's hydro electric projects are dependent upon the approval and granting of water licenses and Crown land rights, the ability to raise sufficient financing to complete the projects, the construction of the hydro electric projects, and to sell the electricity generated to obtain income and cash flow from the projects.

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Acquisition and Basis of Presentation

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

PLUTONIC POWER CORPORATION

Notes to Financial Statements

June 30, 2005

(Unaudited – prepared by management)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Acquisition and Basis of Presentation (continued)

The Company acquired all the outstanding shares of Plutonic Hydro Inc. on May 17, 2004 for initial consideration of \$490,400 through the issue of 1,532,500 common shares with a deemed value of \$0.32 per share and an additional issuance of 332,063 commons shares with a deemed value of \$106,261. The net assets acquired on the purchase of Plutonic Hydro Inc. were:

Cash and accounts receivable	\$ 35,272
Power prospect development costs	654,587
Liabilities	<u>(707,309)</u>
	(17,150)
Deemed value of shares issued	<u>596,661</u>
Net acquisition cost of power projects	<u>\$ 613,811</u>

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

Power Project Development Costs

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

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

PLUTONIC POWER CORPORATION

Notes to Financial Statements

June 30, 2005

(Unaudited – prepared by management)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclamation

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

Equipment

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

Impairment of Assets

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

Income Taxes

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

PLUTONIC POWER CORPORATION

Notes to Financial Statements

June 30, 2005

(Unaudited – prepared by management)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Flow-Through Shares

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

Share-based Compensation

The Company issues options to purchase shares under the terms described in Note 6.

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

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

Loss Per Share

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

Use of Estimates

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

PLUTONIC POWER CORPORATION

Notes to Financial Statements

June 30, 2005

(Unaudited – prepared by management)

3. CHANGES IN ACCOUNTING STANDARDS

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

4. POWER PROJECTS

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

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

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

In the event the water licenses and Crown land rights are not approved and granted and the projects do not commence as planned, the related deferred costs will be written off. The Company's accumulated expenditures to June 30, 2005 on its prospective hydro electric projects are:

	Dec 31 2003	Expenditures 2004	Dec 31 2004	Expenditures 2005	June 30 2005
Hope Projects					
Ruby Creek	\$ 22,064	\$ 228,410	\$ 250,474	\$ 63,941	\$ 314,415
American Creek	3,434	35,486	38,920	8,199	47,119
Emory Creek	4,839	50,014	54,853	26,153	81,006
Howe Sound Projects					
Rainy River	15,788	179,769	195,557	146,693	342,250
Other Howe Sound Projects	--	--	--	15,817	15,817
Green Power Corridor					
East Toba River	30,566	323,965	354,831	190,610	545,441
Montrose Creek	30,566	323,965	354,831	122,326	477,157
Other GPC Projects	47,743	506,497	554,240	216,321	770,561
Europa Creek Project	--	--	--	55,625	55,625
Total Project Costs	<u>\$ 155,000</u>	<u>\$ 1,648,706</u>	<u>\$ 1,803,706</u>	<u>\$ 845,685</u>	<u>\$2,649,391</u>

PLUTONIC POWER CORPORATION

Notes to Financial Statements

June 30, 2005

(Unaudited – prepared by management)

4. POWER PROJECTS (continued)

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

Hope Projects (Ruby, American and Emory Creek)

Located near Hope, British Columbia the Hope Projects have an initially designed installed capacity of 30MW with the potential to generate approximately 112 gigawatt hours per year.

Howe Sound Project (Rainy River)

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

Green Power Corridor Phase 1 (East Toba River and Montrose Creek)

The Green Power Corridor comprises of two projects at the top of Toba Inlet, one project in the Upper Lillooet Valley and nine projects at the top of Bute Inlet.

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

Europa Creek Project

The Europa Creek Project has a design capacity of 81 Megawatts (“MW”) and is expected to generate 280 GWh of green energy per year. The Europa Creek project is located near Kitimat, BC.

PLUTONIC POWER CORPORATION

Notes to Financial Statements

June 30, 2005

(Unaudited – prepared by management)

5. EQUIPMENT

	June 30, 2005		Dec 31, 2004	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer Equipment	<u>\$ 7,573</u>	<u>\$ 2,096</u>	<u>\$ 5,477</u>	<u>\$ 6,437</u>

6. SHARE CAPITAL

Authorized

100,000,000 common shares without par value

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

Issued and outstanding

	Number of Shares	Amount
Common shares		
Issued for cash on incorporation	1	\$ 1
Issued for cash	999,999	99,999
Issued for cash, net of share issue costs of \$59,541	<u>1,300,000</u>	<u>200,459</u>
Balance June 30, 2003	2,300,000	300,459
Stock Consolidation on a 1 for 2 basis	(1,150,000)	--
Issued for mineral property	50,000	10,000
Issued for cash on the exercise of warrants	60,000	15,000
Issued for cash, net of share issue costs \$19,127	<u>2,500,000</u>	<u>480,873</u>
Balance December 31, 2003	3,760,000	806,332
Issued for mineral property	100,000	30,000
Issued for cash, net of share issue costs of \$811,398	5,529,169	2,145,036
Issued for cash on exercise of warrants and options	1,205,000	330,600
Issued for acquisition of Plutonic Hydro Inc	<u>1,532,500</u>	<u>490,400</u>
Balance December 31, 2004	12,126,669	3,802,368
Issued for cash on exercise of options	226,250	58,750
Issued for the acquisition of Plutonic Hydro Inc	332,063	106,261
Exercise of vested options	<u>--</u>	<u>36,000</u>
Balance June 30, 2005	<u>12,684,982</u>	<u>\$ 4,003,379</u>

1,219,500 of the issued common shares are subject to escrow restrictions.

As part of the consideration payable for the purchase of Plutonic Hydro Inc. The Company has agreed to issue additional shares, or make a cash payment, when power projects obtained on the acquisition of Plutonic Hydro Inc. secure construction financing and commence construction. The number of shares or cash payment will be based on the generating capacity of those projects.

PLUTONIC POWER CORPORATION

Notes to Financial Statements

June 30, 2005

(Unaudited – prepared by management)

6. SHARE CAPITAL (continued)

The Company issues share purchase options to directors, officers, employees of the Company and persons who provide ongoing services to the Company under an incentive stock option plan dated May 6, 2004 and has reserved 20% of outstanding common shares for the issue of share purchase options under this plan.

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

Options	Number of Shares					Price Per Share	Expiry Date	Grant Date
	Balance December 31, 2004	Granted during the period	Exercised during the period	Balance June 30, 2005	Exercisable at June 30, 2005			
Directors	103,750	--	103,750	--	--			
Officers	7,500	--	7,500	--	--			
Employees	2,500	--	2,500	--	--			
Directors	526,250	--	--	526,250	526,250	\$0.20	8/09/08	8/09/03
Officers	20,000	--	--	20,000	20,000	\$0.20	8/09/08	8/09/03
Employees	65,000	--	--	65,000	65,000	\$0.20	8/09/08	8/09/03
Directors	412,000	--	--	412,000	309,000	\$0.32	5/17/09	5/17/04
Officers	25,000	--	--	25,000	18,750	\$0.32	5/17/09	5/17/04
Employees	120,000	--	--	120,000	90,000	\$0.32	5/17/09	5/17/04
Consultants	225,000	--	112,500	112,500	84,375	\$0.32	5/17/09	5/17/04
Officers	150,000	--	--	150,000	75,000	\$0.65	9/29/09	9/29/04
Directors	155,000	--	--	155,000	77,500	\$0.75	11/23/09	11/23/04
Consultants	75,000	--	--	75,000	37,500	\$0.75	11/23/09	11/23/04
Employees	<u>370,000</u>	--	--	<u>370,000</u>	<u>185,000</u>	\$0.75	11/23/09	11/23/04
	<u>2,257,000</u>	--	<u>226,250</u>	<u>2,030,750</u>	<u>1,460,250</u>			

PLUTONIC POWER CORPORATION

Notes to Financial Statements

June 30, 2005

(Unaudited – prepared by management)

6. SHARE CAPITAL (continued)

Warrants	Number of Shares	Price Per Share	Expiry Date	Issue Date
	2,270,000	\$0.31	5/16/06	5/16/04
	508,000	\$1.60	12/23/05	12/23/04
	1,092,000	\$1.10	3/15/06	12/23/04
	272,770	\$1.25	12/23/05	12/23/04

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

Average risk-free interest rate	3.0%
Expected share price volatility	74%
Expected average period until exercise	3 years
Expected dividend yield	--

Total compensation expense and contributed surplus included in these financial statements for director, officer and employee options which have vested is:

Balance, July 1, 2003	\$	--
Share-based compensation expense		<u>31,313</u>
Balance, December 31, 2003		31,313
Share-based compensation expense		<u>187,745</u>
Balance December 31, 2004		219,058
Share-based compensation expense		232,623
Exercise of vested options		<u>(36,000)</u>
Balance, June 30, 2005		<u>\$ 415,681</u>

The company adopted the policy for share based compensation of employees and non-employees, as described in Note 2, during the current fiscal period. In accordance with the requirements of the CICA Handbook, the company will account for the change in policy on a prospective basis. The company will, accordingly, record compensation expense only for options vesting during the current fiscal period and subsequently will not record any compensation expense for options which vested in prior years. The proceeds of those options will be recorded in share capital when they are exercised. Had the company recorded the compensation expense for options which vested in prior years retroactively, the deficit and contributed surplus at June 30, 2003 would have increased by \$90,162.

PLUTONIC POWER CORPORATION

Notes to Financial Statements

June 30, 2005

(Unaudited – prepared by management)

7. FINANCIAL INSTRUMENTS

The carrying values of cash, accounts receivable and accounts payable on the balance sheet approximate their respective fair values.

8. RELATED PARTY TRANSACTIONS

During the six month period ending June 30, 2005, the Company paid \$101,253, (2004 - \$17,688) to another company owned by the president of the company for management fees, office services and reimbursement of disbursements. \$50,000 of this amount represents staff bonuses.

9. INCOME TAXES

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

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