

PLUTONIC POWER CORPORATION

**Interim Consolidated Financial Statements
For the three and nine month periods
ended September 30, 2007**

(unaudited)

(expressed in Canadian Dollars)

PLUTONIC POWER CORPORATION
Consolidated Balance Sheets

	September 30 2007 (unaudited)	December 31 2006
ASSETS		
Current Assets		
Cash	\$ 13,489,166	\$ 6,180,193
Accounts receivable	877,847	213,758
Interest receivable	39,261	146,694
Marketable securities (Note 3)	111,750	22,500
Prepaid expenses	134,584	89,350
	14,652,608	6,652,495
Power project development costs (Note 4)	47,311,729	12,974,499
Performance security deposits (Notes 4 and 9)	9,660,000	10,160,000
Equipment (Note 5)	119,204	35,644
TOTAL ASSETS	\$ 71,743,541	\$ 29,822,638
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 7,198,655	\$ 2,519,204
Payable to related parties (Note 6)	86,830	85,184
Accrued interest on letter of credit (Note 9)	318,082	93,698
	7,603,567	2,698,086
Shareholders' Equity		
Share capital (Note 7)	62,262,851	27,873,654
Contributed surplus (Note 8)	9,230,633	2,250,761
Deficit	(7,442,760)	(2,999,863)
Accumulated other comprehensive income	89,250	-
	64,139,974	27,124,552
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 71,743,541	\$ 29,822,638

Subsequent events (Notes 4(a) and 7)

See accompanying notes to consolidated financial statements.

APPROVED BY THE BOARD:

“Donald A. McInnes” Director

“R. Stuart Angus” Director

PLUTONIC POWER CORPORATION

Consolidated Statements of Operations and Comprehensive Loss

For the three and nine month periods ended September 30, 2007 and 2006

(unaudited)

	Three Months ended Sept 30		Nine Months ended Sept 30	
	2007	2006	2007	2006
Expenses				
Amortization	\$ 5,978	\$ 1,476	\$ 15,372	\$ 2,152
Electricity contract cancellation fee (Note 4(c))	100,662	-	100,662	-
Management fees	19,823	70,781	46,944	156,672
Office	70,430	41,072	202,530	74,802
Professional fees	34,657	91,442	124,385	100,110
Project evaluation	8,326	-	139,021	-
Rent	59,542	13,064	164,695	27,291
Salaries	331,876	59,680	869,074	149,862
Share-based compensation	549,793	94,019	2,792,914	319,441
Transfer agent and listing fees	13,478	24,695	212,224	41,201
Travel and promotion	207,210	108,107	605,580	226,334
LOSS BEFORE THE UNDERNOTED	(1,401,775)	(504,336)	(5,273,401)	(1,097,865)
Interest income	319,469	14,677	830,504	21,893
NET LOSS FOR THE PERIOD	(1,082,306)	(489,659)	(4,442,897)	(1,075,972)
OTHER COMPREHENSIVE INCOME (LOSS)				
Unrealized gain (loss) on marketable securities (Note 3)	(169,500)	-	68,250	-
COMPREHENSIVE LOSS FOR THE PERIOD	\$ (1,251,806)	\$ (489,659)	\$ (4,374,647)	\$ (1,075,972)
BASIC AND FULLY DILUTED LOSS PER SHARE	\$ (0.03)	\$ (0.03)	\$ (0.12)	\$ (0.07)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	39,647,887	18,472,922	36,188,821	16,323,557

See accompanying notes to consolidated financial statements.

PLUTONIC POWER CORPORATION

Interim Consolidated Statements of Deficit and Accumulated Other Comprehensive Income
For the nine month periods ended September 30, 2007 and 2006
(unaudited)

	Nine Months ended Sept 30, 2007	Nine Months ended Sept 30, 2006
DEFICIT, BEGINNING OF PERIOD	\$ (2,999,863)	\$ (1,806,296)
Net loss for the period	(4,442,897)	(1,075,972)
DEFICIT, END OF PERIOD	\$ (7,442,760)	\$ (2,882,268)
ACCUMULATED OTHER COMPREHENSIVE INCOME, BEGINNING OF PERIOD	\$ -	\$ -
Transition adjustment on adoption of financial instrument standards (Note 2(b))	21,000	-
Unrealized gain on marketable securities	68,250	-
ACCUMULATED OTHER COMPREHENSIVE INCOME, END OF PERIOD	\$ 89,250	\$ -

See accompanying notes to consolidated financial statements.

PLUTONIC POWER CORPORATION

Consolidated Statements of Cash Flows

For the three and nine month periods ended September 30, 2007 and 2006

(unaudited)

	Three Months ended Sept 30		Nine Months ended Sept 30	
	2007	2006	2007	2006
Cash provided by (used in)				
Operating Activities				
Net loss for the period	\$ (1,082,306)	\$ (489,659)	\$ (4,442,897)	\$ (1,075,972)
Items not requiring (providing) cash				
Amortization	5,978	1,476	15,372	2,152
Share-based compensation	549,793	94,019	2,792,914	319,441
Share-based compensation for consultants included in travel and promotion	17,341	-	89,165	-
	(509,194)	(394,164)	(1,545,446)	(754,379)
Changes in non-cash working capital				
Accounts receivable	(282,988)	37,681	(664,089)	69,996
Interest receivable	321,608	-	107,433	-
Prepaid expenses	(51,876)	(1,636)	(45,234)	(25,057)
Accounts payable and accrued liabilities	3,578,907	691,765	4,679,451	813,996
Payable to related parties	8,523	22,915	1,646	7,780
Less: Liabilities relating to power project development costs	(3,590,321)	(497,268)	(4,355,009)	(614,540)
	(525,341)	(140,707)	(1,821,248)	(502,204)
Investing Activities				
Performance security deposits	500,000	(9,512,562)	500,000	(10,160,000)
Power project development costs	(10,473,849)	(843,715)	(24,156,028)	(2,674,150)
Purchase of equipment	(12,149)	(21,843)	(98,932)	(21,843)
	(9,985,998)	(10,378,120)	(23,754,960)	(12,855,993)
Financing Activities				
Common shares issued for cash	295,126	385,944	34,785,901	3,673,744
Share issue costs recovered (incurred)	5,272	-	(1,900,720)	(15,476)
Short term loans	-	9,806,959	-	9,806,959
	300,398	10,192,903	32,885,181	13,465,227
INCREASE (DECREASE) IN CASH	(10,210,941)	(325,924)	7,308,973	107,030
CASH, BEGINNING OF PERIOD	23,700,107	453,149	6,180,193	20,195
CASH, END OF PERIOD	\$ 13,489,166	\$ 127,225	\$ 13,489,166	\$ 127,225
Supplementary Information on Non-Cash Transaction				
Fair value of options & warrants for financing of power projects	\$ -	\$ 1,176,730	\$ 1,519,870	\$ 1,176,730
Fair value of compensation warrants issued for equity financing	-	-	182,044	-
Fair value of employee options capitalized to power projects	667,418	-	2,919,439	-
Accrued Interest relating to power projects	75,616	-	224,384	-
Shares issued for settlement agreement capitalized to power projects	-	-	1,162,500	-
Unrealized loss (gain) on marketable securities	169,500	-	(68,250)	-

See accompanying notes to consolidated financial statements.

PLUTONIC POWER CORPORATION

Interim Consolidated Statements of Power Project Development Costs

For the nine month period ended September 30, 2007

(unaudited)

	East Toba / Montrose	Other GPC Projects	Rainy River	Other	Total
Balance, December 31, 2005	\$1,899,476	\$769,440	\$440,092	\$729,684	\$3,838,692
Engineering and hydrology	2,297,078	194,150	296,319	187,106	2,974,653
Permitting	263,096	80,666	20,587	32,796	397,145
Community relations	789,763	511	48,249	436	838,959
Tender bid costs	685,221	-	598,678	5,267	1,289,166
Financing costs	402,959	-	102,677	-	505,636
Contract – Salaries	859,505	-	-	-	859,505
Contract – Office and admin	74,708	-	-	-	74,708
Contract – Transportation	392,476	-	-	-	392,476
Contract – Equipment & Supplies	293,595	-	-	-	293,595
Contract – Engineering	385,442	-	-	-	385,442
Stock-based compensation	66,000	-	-	-	66,000
Fair value of warrants issued for financing costs	1,072,640	-	82,090	-	1,154,730
Project evaluation costs written off	-	-	-	(14,118)	(14,118)
Subtotal	7,582,483	275,327	1,066,510	211,487	9,135,807
Balance, December 31, 2006	9,481,959	1,044,767	1,506,602	941,171	12,974,499
Engineering and hydrology	1,866,252	1,644,556	549,854	269,741	4,330,403
Permitting	1,599,300	833,666	193,055	116,001	2,742,022
Community relations	1,225,052	34,642	20,044	6,273	1,286,011
Financing and legal costs	1,333,433	6,682	88,973	-	1,429,088
Contract – Salaries	4,148,212	-	-	-	4,148,212
Contract – Office and admin	594,940	-	-	-	594,940
Contract – Transportation	2,596,270	-	-	-	2,596,270
Contract – Equipment & Supplies	10,110,902	-	-	-	10,110,902
Contract – Engineering	1,309,955	-	-	-	1,309,955
Contract - Other	227,762	-	-	-	19,988,041
Consulting costs settled in shares	1,162,500	-	-	-	1,162,500
Stock-based compensation	2,743,076	-	783,063	-	3,526,139
Fair value of warrants issued for financing costs	848,253	-	64,917	-	913,170
Project evaluation costs written off	-	(32,449)	-	(7,695)	(40,144)
Subtotal	29,765,907	2,487,097	1,699,906	384,320	34,337,230
Balance, September 30, 2007	\$39,247,866	\$3,531,864	\$3,206,508	\$1,325,491	\$47,311,729

See accompanying notes to consolidated financial statements.

PLUTONIC POWER CORPORATION

Notes to the Interim Consolidated Financial Statements

For the three and nine month periods ended September 30, 2007 and 2006

(unaudited)

1. OPERATIONS

Plutonic Power Corporation and its wholly owned subsidiary companies, Plutonic Hydro Inc., Plutonic TMP Holdings Inc. and Toba Montrose Hydro Inc., collectively (the “Company”) are incorporated in the Province of British Columbia, Canada. The Company’s principal business operations are the identification, development, construction and ultimately operation of economically viable clean power projects. The Company and its partner GE Energy Financial Services (“GE”) have contracted with Peter Kiewit Sons Co. (“Kiewit”) to construct the East Toba and Montrose generation facilities and related transmission line. These two generation facilities are to have a combined capacity of 196 megawatts (“MW”) and are expected to generate on average 745 gigawatt hours (“GWh”) of electricity annually with commencement of delivery and sale of electricity to British Columbia Hydro and Power Authority (“BC Hydro”) scheduled to begin in 2010 under a 35 year Electricity Purchase Agreement (“EPA”).

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The Company prepares its consolidated interim financial statements in accordance with Canadian generally accepted accounting principles on a basis consistent with those used and described in the annual consolidated financial statements for the year ended December 31, 2006 except as discussed in note 2(b). The disclosures contained in these consolidated interim financial statements do not include all the requirements of Canadian generally accepted accounting principles for annual financial statements, and accordingly, these consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the period ended December 31, 2006. Certain comparative figures have been restated to conform to the current period’s financial statement presentation.

(b) Adoption of changes in accounting policies

Effective January 1, 2007, the Company adopted five new Canadian Institute of Chartered Accountants (“CICA”) accounting standards: (a) Handbook Section 1530, *Comprehensive Income*; (b) Handbook Section 3855, *Financial Instruments - Recognition and Measurement*; (c) Handbook Section 3861 *Financial Instruments - Disclosure and Presentation*; (d) Handbook Section 3865, *Hedges*; and (e) Handbook Section 1506, *Accounting Changes*. The main requirements of these new standards and the resulting financial statement impact are described below.

Comprehensive Income (Section 1530):

CICA Section 1530 introduces the term Comprehensive Income, which consists of net earnings and other comprehensive income (“OCI”). OCI represents changes in Unitholders’ equity during the period arising from transactions and other events with non-owner sources. As a result of adopting this standard, a new Statement of Comprehensive Income now forms part of the Fund’s consolidated financial statements which includes the current period net loss and OCI. Cumulative changes in OCI are included in Accumulated Other Comprehensive Income, which is presented as a new category of Unitholders’ Equity in the balance sheet.

PLUTONIC POWER CORPORATION

Notes to the Interim Consolidated Financial Statements

For the three and nine month periods ended September 30, 2007 and 2006
(unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Adoption of changes in accounting policies (continued)

Financial Instruments - Recognition and Measurement (Section 3855):

CICA Section 3855 sets out criteria for the recognition and measurement of financial instruments and requires all financial instruments within its scope, including derivatives, to be included on the balance sheet and measured either at fair value or, in certain circumstances when fair value may not be considered most relevant, at cost or amortized cost. Changes in fair value are to be recognized in either net earnings or OCI.

All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the item. As such, any of the Fund's outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if these requirements had always been in effect. Any changes to the fair values of assets and liabilities prior to January 1, 2007 are recognized by adjusting opening deficit or opening accumulated other comprehensive income.

As a result of the adoption of this standard, the Company's marketable securities have been classified as available for sale and as such at January 1, 2007 were revalued from their carrying cost of \$22,500 to their fair value of \$43,500, with the \$21,000 unrealized gain being recorded as a transition adjustment for accumulated other comprehensive income. Subsequent to January 1, 2007, these financial instruments have been revalued at each period end to fair market value.

Financial Instruments - Disclosure and Presentation (Section 3861):

CICA Section 3861 sets out standards which address the presentation of financial instruments and non-financial derivatives, and identifies the related information that should be disclosed. These standards also revise the requirements for entities to provide accounting policy disclosures, including disclosure of the criteria for designating as held-for-trading those financial assets or liabilities that are not required to be classified as held-for-trading; whether categories of normal purchases and sales of financial assets are accounted for at trade date or settlement date; the accounting policy for transaction costs on financial assets and financial liabilities classified as other than held-for-trading; and provide several new requirements for disclosure about fair value.

Hedging (Section 3865):

CICA Section 3865 specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company currently does not hold any financial instruments designated for hedge accounting.

PLUTONIC POWER CORPORATION

Notes to the Interim Consolidated Financial Statements

For the three and nine month periods ended September 30, 2007 and 2006
(unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Adoption of changes in accounting policies (continued)

Accounting Changes (Section 1506):

CICA Section 1506 revised the standards on changes in accounting policy, estimates or errors to require a change in accounting policy to be applied retrospectively (unless doing so is impracticable), changes in estimates to be recorded prospectively, and prior period errors to be corrected retrospectively. Voluntary changes in accounting policy are allowed only when they result in financial statements that provide reliable and more relevant information. In addition, these revised standards call for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact of this new standard cannot be determined until such time as the Company makes a change in accounting policy, other than the changes resulting from the implementation of the new CICA Handbook standards previously discussed in this note.

3. MARKETABLE SECURITIES

Marketable securities consist of common shares of a public company.

	<u>September 30, 2007</u>		<u>December 31, 2006</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Marketable Securities	\$22,500	\$111,750	\$22,500	\$43,500

Upon adoption of the new CICA Handbook Section 3855, the Company designates its marketable securities as available for sale and as such, they were valued at market value as of September 30, 2007. These marketable securities were valued at cost at December 31, 2006. Unrealized changes to market value are adjusted to OCI.

4. POWER PROJECTS

The Company has incurred and capitalized direct costs on 34 run-of-river hydroelectric power development sites located primarily in the southwestern region of British Columbia. 27 of the sites are located within the Company's green power corridor, located in the headwaters of the Toba, Bute and Knight Inlets, northeast of Powell River, BC.

In connection with the purchase of Plutonic Hydro Inc. in 2003, the Company is required to pay a one-time bonus within 30 days of the later of securing construction financing and the commencement of construction for power projects acquired from and identified subsequently by the vendors of Plutonic Hydro Inc. The bonus, payable in shares or cash at the Company's option, is to be calculated as \$1,000 per GWh of energy per year to be generated on each of these power projects. The Company expects to pay a bonus of approximately \$745,000 in the fourth quarter of 2007 once the East Toba and Montrose project is financed.

PLUTONIC POWER CORPORATION

Notes to the Interim Consolidated Financial Statements

For the three and nine month periods ended September 30, 2007 and 2006
(unaudited)

4. POWER PROJECTS (continued)

The Company's principal power projects are as follows:

(a) East Toba River and Montrose Creek Power Project, Green Power Corridor

The East Toba and Montrose development sites are located at the headwaters of the Toba Inlet on the East Toba River and Montrose Creek respectively. The combined designed capacity is 196 MW with expected annual average electricity generation of 745 GWh.

The Company and its partner GE, executed an approximately \$500 million fixed-price EPC (engineering, procurement, construction) contract with Kiewit for the construction of this project in September 2007.

Since November 2006, the Company had engaged Kiewit and has funded final project engineering and the purchase of a number of pre-fabricated bridges and construction camp to maintain a construction schedule that will allow the project to commence operations in 2010. To September 30, 2007, the Company spent approximately \$20.8 million under this limited notice to proceed.

In June 2007, the Company and GE, through a Canadian affiliate, signed a definitive Partnership Agreement ("Partnership") through which GE will invest up to \$112 million to acquire a 49% equity and 60% economic interest in the East Toba and Montrose project for the first 35 years of operations. Subsequently, GE's economic interest will reduce to 49% from 60% and the Company's economic interest will increase from 40% to 51%. GE's contribution will be made up of \$100 million in equity and \$12 million available for its share of potential cost overruns.

The Partnership has engaged GE Canada Equipment Financing G.P., GE Capital Markets (Canada) Ltd. and the Manufacturers Life Insurance Company to co-lead a \$470 million senior secured debt offering to complete the financing of the project. Subsequent to September 30, 2007, the Partnership entered into this debt financing agreement with a syndicate of financial institutions which together provide 38-year senior secured credit facilities with draw downs to correspond with the three-year construction period and repayment over the 35-year term of the project's EPA with BC Hydro.

Subsequent to September 30, 2007, the Company and GE completed their respective partners' contributions to the Partnership. The Company contributed the project and associated permits, licences, Impact and Benefits Agreement ("IBA") with the Klahoose and Sliammon First Nations and its EPA with BC Hydro. The Company will contribute \$30 million in equity after GE's \$100 million equity contribution and the senior debt facility have been fully drawn. The \$30 million equity contribution is to be used to fund an increase in capacity of the 230 kilovolt transmission line to be built from the Toba Valley to Saltery Bay, British Columbia. The Company will receive the right to use, subject to a priority use agreement, any additional unused capacity of the transmission line for its three additional Upper Toba Valley sites with estimated generation capacity of 120 MW. In the interim, GE will provide the Company with a bridge credit facility of \$30 million until the Company is required to fund its \$30 million of equity. In return for the \$30 million bridge credit facility, the Company has granted GE the right to negotiate to finance up to an additional 200 MW of other hydroelectric power projects of the Company in BC and has issued on October 26, 2007 650,000 share purchase warrants to GE, with each warrant entitling GE to

PLUTONIC POWER CORPORATION

Notes to the Interim Consolidated Financial Statements

For the three and nine month periods ended September 30, 2007 and 2006
(unaudited)

4. POWER PROJECTS (continued)

(a) East Toba River and Montrose Creek Power Project, Green Power Corridor (continued)

purchase one common share of the Company at a price of \$9.03 per common share until October 26, 2009. The Company would also have to fund its pro-rata share of any project cost overruns if any.

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

During the first quarter of 2007, the Company and the Klahoose First Nation finalized an IBA which facilitated Klahoose First Nation support for the development of this project. The IBA includes annual payments to the Klahoose First Nation and employment and training opportunities for the Klahoose First Nation members during construction and operation of the project. The project’s generation facilities are to be built within the traditional land of the Klahoose First Nation.

In April 2007, the Company finalized an IBA with the Sliammon First Nation to facilitate Sliammon First Nation support for the development of this project. A significant portion of the transmission line linking the project’s generation facilities to the British Columbia Transmission Corporation grid will be located within the traditional land of the Sliammon First Nation. The IBA includes annual payments to the Sliammon First Nation and employment and training opportunities for the Sliammon First Nation members during construction and operation of the project.

In 2006, the Company entered these two power projects under one bid into the 2006 BC Hydro Call for Tender and was awarded a 35 year EPA with commencement of electrical power delivery in July 2010. The British Columbia Utilities Commission has approved the EPA for the East Toba and Montrose project. The Company provided an \$11.76 million letter of credit together with a fully executed EPA with BC Hydro. In addition, GE provided \$2.5 million of credit support which the Company used to post the performance bond (Note 9).

PLUTONIC POWER CORPORATION

Notes to the Interim Consolidated Financial Statements

For the three and nine month periods ended September 30, 2007 and 2006
(unaudited)

4. POWER PROJECTS (continued)

(b) Other Green Power Corridor Projects

The other Green Power Corridor (“GPC”) projects in British Columbia include three development areas:

- The Upper Toba Valley area, with 3 power sites, have a combined potential capacity of 120 MW and potential annual electricity generation of 390 GWh. These 3 sites are located near the headwaters of Toba Inlet, approximately 100 km north of Powell River, BC and were added in April 2007;
- The Bute Inlet area, with 18 power sites, have a combined potential capacity of 1,000 MW and potential annual electricity generation of 3,070 GWh. 4 of these 18 sites were added in May 2007, 2 of these 18 sites were added in July 2007 and 3 of these 18 sites were added in August 2007;
- The Knight Inlet area, with 3 power sites, have a combined potential capacity of 150 MW and potential annual electricity generation of 470 GWh.

The Company successfully completed Stages 1 and 2 towards securing a Water License and Crown Land rights from the Integrated Land Management Bureau (Ministry of Agriculture and Lands) and the Water Stewardship Division (Ministry of the Environment) for all of the new power sites added in 2007.

In July 2007, the Company submitted the Upper Toba Valley project to the EAO for the construction of three run of river generation facilities, one each of which is located on Dalglish Creek, Jimmie Creek and the Upper Toba River. The EAO issued a Section 10 order that binds the Upper Toba Valley project to the Environmental Assessment Act. The Company intends to complete the permitting for the Upper Toba Valley project in early 2009.

The Company is conducting hydrological, environmental and permitting work on all of its other green power corridor power projects with the intention to enter a number of these power projects into the next BC Hydro Call for Tender which is anticipated to be formally unveiled by BC Hydro in late 2007/early 2008 with EPAs being potentially awarded by BC Hydro in 2008.

(c) Rainy River Power Project, Gibsons, Howe Sound

The Rainy River power project is located near Gibsons, British Columbia. The designed capacity is 14 MW with an expected annual average electricity generation of approximately 50 GWh.

In August 2007, the Company advised BC Hydro of its intention to exit the EPA for the 14 MW Rainy River run of river project due to unexpected complexities in the environmental permitting process caused by the discovery of a number of fish species in the area. Complexities in permitting have decreased certainty around the timing for the project commercial operation date. The Company paid a cancellation fee of \$100,662 to BC Hydro and received \$900,000 of performance security deposits back from its bank when the associated letter of credit that had been posted as a performance bond was released by BC Hydro.

PLUTONIC POWER CORPORATION

Notes to the Interim Consolidated Financial Statements

For the three and nine month periods ended September 30, 2007 and 2006
(unaudited)

4. POWER PROJECTS (continued)

(c) Rainy River Power Project, Gibsons, Howe Sound (continued)

The Company still believes the project has long-term viability and is considering its options with respect to future courses of action.

In 2006, the Company entered the Rainy River power project into the 2006 BC Hydro Call for Tender and was awarded a 35 year EPA. The Company posted a \$900,000 performance bond together with a fully executed EPA with BC Hydro. Concurrently, the Company granted GE the right to match any equity investment offer that the Company receives for the Rainy River project as part of the transaction with GE on the East Toba and Montrose project.

In 2004, the Company entered into an agreement with the Howe Sound Pulp and Paper Limited Partnership ("HSLP") to jointly develop this power project. This agreement was extended in 2006. Under the terms of this agreement, the Company will receive an 80% interest in the cash flow from this project after receiving full repayment of its costs plus, a 10% fee in connection with the construction of the plant, including interest at bank prime rates plus 4% per annum (calculated quarterly). HSLP will have the remaining 20% interest in the cash flow of the project once the Company is fully repaid for its costs.

(d) Emory Creek, Ruby/Garnet Creek and American Creek, Hope Projects

These power sites are located near Hope, British Columbia and they have a combined capacity of 38 MW and potential annual average electricity generation of 130 GWh.

5. EQUIPMENT

			September 30, 2007 Net Book Value	December 31, 2006 Net Book Value
Computer equipment	\$ 58,359	\$ 14,887	\$ 43,472	\$ 18,182
Office equipment	85,228	9,496	75,732	17,462
	<u>\$ 143,587</u>	<u>\$ 24,383</u>	<u>\$ 119,204</u>	<u>\$ 35,644</u>

6. RELATED PARTY TRANSACTIONS

A minor portion of the Company's administrative operations is performed by a private company owned by the CEO of the Company. This related private company charged fees of \$19,823 and \$46,944 (2006 - \$70,781 and \$156,672) for these services for the three and nine months ended September 30, 2007 respectively and was owed \$18,749 at September 30, 2007 (December 31, 2006 - \$64,001). The amounts owed to this related company are non-interest bearing. The activities under this arrangement are being wound down.

For the three and nine months ended September 30, 2007, the Company paid or accrued \$256,801 and \$538,672 respectively in legal fees to a law firm, of which a partner is the corporate secretary of the Company. This law firm was owed \$68,081 at September 30, 2007 (December 31, 2006 - \$21,183).

PLUTONIC POWER CORPORATION

Notes to the Interim Consolidated Financial Statements

For the three and nine month periods ended September 30, 2007 and 2006
(unaudited)

7. SHARE CAPITAL

Authorized
100,000,000 common shares without par value
10,000,000 preferred shares without par value, issuable in series

Common Shares – Issued and outstanding	Number of Shares	Amount
Balance, December 31, 2005	12,684,982	\$ 4,001,939
Issued for cash from private placement	13,100,000	22,480,000
Share issue costs	-	(1,646,185)
Issued for cash on exercise of warrants	4,235,020	2,701,800
Issued for cash from exercise of options	435,000	192,400
Transfer from contributed surplus on exercise of vested options	-	143,700
Balance, December 31, 2006	30,455,002	27,873,654
Issued for cash on exercise of warrants	1,501,641	1,946,251
Issued for cash from exercise of options	441,500	534,650
Issued for cash from private placement	7,100,000	32,305,000
Share issue costs	-	(2,082,764)
Issued per terms of a termination agreement	250,000	1,162,500
Transfer from contributed surplus on exercise of vested options	-	460,174
Transfer from contributed surplus on exercise of vested warrants	-	63,386
Balance, September 30, 2007	39,748,143	\$ 62,262,851

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

In April 2007, the Company agreed to issue 250,000 units, with each unit comprised of one common share and one-half of one common share purchase warrant, to a consultant as part of the termination of a consulting agreement. Each whole warrant is exercisable into a common share of the Company at a price of \$4.65 per share and is exercisable for a two year period. The shares were valued based on the closing price of the shares on the date of the agreement and the warrants were valued at \$153,375 using an option pricing model assuming a risk-free rate of 4%, an expected life of one year, expected volatility of 63% and expected dividend yield of nil. The value of the shares and warrants issued has been capitalized to power project development costs during the nine month period ended September 30, 2007.

In May 2007, 304,875 of the issued common shares of the Company that were subject to escrow restrictions were released. As at September 30, 2007, there were no remaining common shares that were subject to escrow restrictions.

PLUTONIC POWER CORPORATION

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For the three and nine month periods ended September 30, 2007 and 2006
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7. SHARE CAPITAL (continued)

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

The exercise price of stock options is no less than the closing price of shares on the business day immediately preceding the date on which the option is granted. A number of options vest at the rate of 25% on the date of the grant and 25% every six months thereafter. The remaining options based on the Company's current policy, vest over three years, with 1/3 of the grant vesting at the end of each completed year from the date of grant. Options expire no later than five years from the grant date, except that they expire within 90 days when the holder is no longer qualified to hold the option (other than for cause, when the option expires immediately). A summary of stock option activity for the nine month period ended September 30, 2007 is as follows:

	Options granted	Weighted average exercise price
Balance, December 31, 2005	2,180,750	\$0.46
Options granted – approved	1,610,246	1.49
Options granted – subject to shareholder approval*	156,504	2.66
Options exercised	(435,000)	0.44
Balance, December 31, 2006	3,512,500	1.03
Options granted – approved	2,615,000	4.70
Options cancelled	(412,500)	3.91
Options exercised	(441,500)	1.21
Balance, September 30, 2007	5,273,500	\$2.61

* Shareholder approval obtained in May 2007

Of the total 412,500 options cancelled, 25,000 were originally granted July 10, 2006, 25,000 were originally granted November 14, 2006, 15,000 were originally granted December 18, 2006 and 347,500 were originally granted March 28, 2007.

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7. SHARE CAPITAL (continued)

The following table summarizes information concerning outstanding and exercisable options at September 30, 2007:

Grant date	Expiry date	Number Outstanding	Weighted Average Exercise price	Weighted Remaining Contractual life (in years)	Number Vested and Exercisable	Weighted Average Exercise price
8-Sep-03	8-Sep-08	546,250	\$0.20	0.94	546,250	\$0.20
17-May-04	17-May-09	349,500	0.32	1.63	349,500	0.32
23-Nov-04	24-Nov-09	448,000	0.75	2.15	448,000	0.75
1-Sep-05	2-Sep-10	150,000	0.80	2.93	150,000	0.80
27-Mar-06	27-Mar-11	160,000	0.80	3.49	160,000	0.80
28-Mar-06	28-Mar-11	300,000	0.80	3.49	300,000	0.80
7-Jun-06	7-Jun-11	541,750	1.65	3.69	403,813	1.65
10-Jul-06	10-Jul-11	190,000	1.63	3.78	142,500	1.63
25-Jul-06	25-Jul-11	200,000	2.12	3.82	150,000	2.12
14-Nov-06	14-Nov-11	46,500	2.10	4.13	1,500	2.10
18-Dec-06	18-Dec-11	99,000	2.80	4.22	46,500	2.80
17-Jan-07	17-Jan-12	15,000	2.95	4.30	-	2.95
27-Mar-07	26-Mar-12	350,000	4.20	4.49	175,000	4.20
28-Mar-07	27-Mar-12	1,322,500	4.25	4.49	660,000	4.25
20-Apr-07	19-Apr-12	230,000	5.28	4.56	57,500	5.28
14-May-07	13-May-12	100,000	7.28	4.62	25,000	7.28
22-May-07	21-May-12	150,000	7.30	4.64	37,500	7.30
11-Jul-07	10-Jul-12	27,500	7.80	4.78	6,875	7.80
13-Sep-07	12-Sep-12	47,500	6.90	4.96	11,875	6.90
		5,273,500	\$2.61	3.48	3,671,813	\$1.86

Subsequent to September 30, 2007, the Company issued 245,350 common shares pursuant to the exercise of stock options for cash proceeds of \$114,333.

The weighted average grant-date fair value of stock options granted during the three and nine months ended September 30, 2007 is \$7.26 and \$4.66 respectively.

The Company determines the fair value of the options granted using a Black-Scholes option pricing model, recognizing forfeitures as they occur, using the following weighted average assumptions:

Risk-free interest rate	3.9% to 4.0%
Expected life (years)	2.5 to 4
Expected volatility	56% to 80%
Expected dividend yield	Nil

PLUTONIC POWER CORPORATION

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7. SHARE CAPITAL (continued)

The following table summarizes information concerning warrants outstanding at September 30, 2007:

Number of Shares	Price Per Share	Expiry Date	Issue Date
46,875	\$1.75	Until March 29, 2008	March 28, 2006
1,830,000	\$2.50	Until August 29, 2008	August 30, 2006
406,485	\$2.00	Until November 9, 2008	November 9, 2006
125,000	\$4.65	Until May 14, 2009	May 14, 2007
2,408,360			

Subsequent to September 30, 2007, the Company issued 125,000 common shares pursuant to the exercise of warrants for cash proceeds of \$581,250.

Subsequent to September 30, 2007, the Company issued to GE 650,000 two year common share purchase warrants. Each warrant entitles GE to purchase one common share of the Company at an exercise price of \$9.03 per common share until October 26, 2009. For more information, see note 4 (a).

8. CONTRIBUTED SURPLUS

The total contributed surplus and related share-based compensation expense included in these financial statements for director, employee and consultant options which have vested are as follows:

Balance, December 31, 2005	\$ 566,140
Share-based compensation expense	446,994
Fair value of options and warrants issued for power project financing	1,220,730
Fair value of compensation warrants issued for equity financing	160,597
Transfer to share capital on exercise of vested options	(143,700)
Balance, December 31, 2006	2,250,761
Share-based compensation expense	2,792,914
Fair value of options granted to Consultants	89,165
Fair value of options and warrants capitalized to power project costs	4,439,309
Fair value of compensation warrants issued for equity financing	182,044
Transfer to share capital on exercise of vested options	(460,174)
Transfer to share capital on exercise of warrants	(63,386)
Balance, September 30, 2007	\$ 9,230,633

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Notes to the Interim Consolidated Financial Statements

For the three and nine month periods ended September 30, 2007 and 2006
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9. PERFORMANCE SECURITY DEPOSITS

In August 2006, GE provided the Company with a \$2,500,000 letter of credit to partly finance the issuance of \$12,660,000 in letters of credit required as performance security for the East Toba/Montrose and Rainy River EPA. The Company deposited \$10,160,000 to provide the remaining letter of credit support.

The Company is required to pay to GE interest on the \$2,500,000 of credit support provided to the Company at an annual rate of 10% for the first 60-day period and an annual rate of 12% thereafter until the letter of credit is cancelled or no longer required. The Partnership will assume the bonding requirements of the Toba Montrose EPA and the Company anticipates retirement of the \$2,500,000 letter of credit during the fourth quarter of fiscal 2007. At September 30, 2007, the Company had accrued and capitalized to power project development costs \$318,082 in interest costs payable to GE.

As part of the transaction with GE, the Company issued 375,000 share purchase warrants to GE. Each share purchase warrant entitles GE to purchase one common share of the Company at a price of \$2.50 per common share until August 28, 2008. The fair value of the warrants was calculated using a risk-free rate of 4%, an expected life of one year, expected volatility of 81% and expected dividend yield of nil.

During the third quarter ended September 30, 2007, the Company posted \$400,000 of performance security deposits on behalf of the Partnership with the Department of Fisheries and Oceans (“DFO”) and with Integrated Land Management Bureau (“ILMB”) as part of the permitting requirements for the construction of the Toba and Montrose project. The Partnership is expected to reimburse the Company for the costs of the security deposits in the fourth quarter of fiscal year 2007.

	September 30, 2007	December 31, 2006
Toba Montrose EPA security deposits	\$9,260,000	\$9,260,000
Rainy River EPA security deposits	-	900,000
DFO and ILMB security deposits	400,000	-
Total performance security deposits	\$9,660,000	\$10,160,000

10. INCOME TAXES

As of December 31, 2006, the Company has unrecognized non-capital losses for income tax purposes of approximately \$4.2 million that may be used to offset future taxable income. At this time, the Company has assessed that it is not more than likely that the tax loss carryforward will be realized. These losses, if not utilized, will expire from 2007 to 2026.