Highlights from 2004

- The Company completed the purchase of a private British Columbia based independent power company named Plutonic Hydro Inc. (formerly 648795 BC Ltd.)
- Plutonic submitted two of its run-of-river Green Power Corridor Projects into the Environmental Assessment Permitting Process ("EAO"). The submission to the EAO is for the construction of a 145 kilometer long transmission line and two run of river green hydroelectric projects; the 120 Megawatt ("MW") East Toba River Project and the 50 MW Montrose Creek Project.
- Plutonic Power Corporation successfully completed the preliminary stages to securing a Water License and Crown Land rights from Land and Water British Columbia, a crown corporation of the Government of British Columbia, for the development of a 20 MW run-of-river hydroelectric power generation project on Rainy River, near Sechelt, and for an 81 MW project on Europa Creek near Kitimat.
- Plutonic entered into a development and facilitation agreement with Howe Sound Pulp and Paper Limited Partnership ("Howe Sound"), the owners and operators of a pulp and paper mill on Rainy River.
- The company completed financing for gross proceeds of $2,341,600 in December 2004.

Goals and Objectives for 2005

- Complete application permitting process under the British Columbia Environmental Assessment Agency for the East Toba and Montrose Creek Projects
- Complete permitting for the Rainy River Project
- Submit Rainy River, Europa, Ruby, Emory and East Toba and Montrose Creeks into the Fall, 2005 BC Hydro call for tender process
- Explore further hydro electric development opportunities in British Columbia
- Further strengthen the management team and Board of Directors to ensure optimum development of all Plutonic resources

Front cover photo:  Lower waterfall at East Toba River near proposed powerhouse location

Back cover photo:  Glaciated and snow-capped mountains feeding the Bute and Toba watersheds.
What is Run of River Hydro?

Unlike traditional hydroelectric facilities, run-of-river projects do not require any damming of water. Instead, the water is diverted from a river and sent into a pipe called a penstock. The penstock feeds the water downhill to a generating station. The natural force of gravity creates the energy required to spin the turbines that in turn generate electricity. The electricity passes through power lines that are connected to the main electricity grid system. The water leaves the generating station and is spilled back into the river without altering the existing flow or water levels.

Plutonic Power's run-of-river projects have been located on streams with natural waterfalls that act as barriers for fish, thus minimizing negative impacts on fish and wildlife habitat. Most of Plutonic’s projects are located well away from major recreation and residential areas. Project component specifications and construction methods on all projects are consistent with providing the least amount of environmental and visual impacts.

Environmental
- Zero GHG (greenhouse gas) emissions
- Displaces energy produced by fossil fuels
- Generates electricity from a renewable resource
- Presents a low visual impact
- Has a minimal impact on fish, vegetation, bird and wildlife habitat

Economic
- Provides reliable and consistent energy
- A non-depleting resource
- Not subject to fuel commodity risk
- Long facility life (> 50 years)
- Low operating costs
- Serves high credit rating power purchasers
- Allows for long term contracts with purchasers
- Provides attractive rates of return

Social
- Creates economic activity in remote areas
- Joint venture and employment opportunities created for First Nations
- Generates tax revenue for local communities
- Creates construction and long term jobs
- Over 80% of materials sourced in Canada
- Reduces B.C.’s reliance on electricity imports
- Provides a reliable and long lasting electricity source

The Advantages of Run of River Hydroelectric Power Generation

Vision
Plutonic Power Corporation is focused on a growth and development path to become the preeminent supplier of “green electricity” to British Columbia

Mission Statement
Plutonic Power identifies and develops environmentally friendly and economically viable run-of-river power projects that will benefit all stakeholder groups and maximize shareholder value

What is Run of River Hydro?

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- Reduces B.C.’s reliance on electricity imports
- Provides a reliable and long lasting electricity source
The British Columbia Energy Market

- The BC Provincial Government has mandated that at least 50% of all new electricity supply must be from clean sources.
- The Government Energy Plan states that all new generation capacity will be provided by Independent Power Producers such as Plutonic Power.
- Presently, 34 independent power producers supply approximately 7000 GWh of electricity to the Province.
- BC Hydro expects electricity demand rates to grow at nearly 2% annually.
- Large scale infrastructure and industrial development will create further demands for additional generation facilities within B.C.
- The Province plans to phase-out of Burrard Thermal generating plant by 2014.
- According to current forecasts, the BC electricity system will fall into energy deficit in fiscal 2011.
- In Fiscal 2004, BC Hydro imported over 5000 Gwh of electricity from Alberta and the United States, primarily from fossil fuel burning generation plants.

Macroeconomic Factors

- Projected 3% economic growth in British Columbia over the next five years.
- Continued high oil and natural gas prices increasing electricity prices across western North America.
- Implementation of the Kyoto protocol will require Canada to reduce up to 300 mega-tonnes of greenhouse gas emissions.
- Planned requirements for large industrial emitters to purchase Emission Reduction Credits from clean energy companies such as Plutonic Power.
- Volatile electricity prices in western United States, particularly California.
- The 2005 Federal Budget created a Renewable Energy subsidy to non-wind green power producers of $0.03 per KWh of electricity generation.
- Support by the Provincial government for renewable energy sources through tax incentives and accounting based concessions.
- Increasing public demand for green electricity.

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share-based compensation</td>
<td>$187,745</td>
<td>$31,313</td>
</tr>
<tr>
<td>Contributed surplus</td>
<td>219,058</td>
<td>31,313</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share-based compensation expense</td>
<td>$40,038</td>
<td>$22,750</td>
</tr>
<tr>
<td>Net loss, as reported</td>
<td>40,038</td>
<td>50,124</td>
</tr>
<tr>
<td>Deficit, pro forma</td>
<td>$348,740</td>
<td>$368,702</td>
</tr>
<tr>
<td>Loss per share, pro forma</td>
<td>$0.04</td>
<td>$0.04</td>
</tr>
</tbody>
</table>
PLUTONIC POWER CORPORATION

Notes to Consolidated Financial Statements
December 31, 2004

7. SHARE CAPITAL (continued)

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

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

Options | Number of Shares | Price Per Share | Expiry Date | Grant Date
---|---|---|---|---
Discours | 103,750 | $0.20 | December 31, 2004 |
Employees | 5,000 | $0.20 | December 31, 2004 |
Consultants | 5,000 | $0.20 | December 31, 2004 |
Discours | 526,250 | $0.32 | December 31, 2004 |
Officers | 20,000 | $0.32 | December 31, 2004 |
Employees | 20,000 | $0.32 | December 31, 2004 |
Discours | 80,000 | $0.32 | December 31, 2004 |
Consultants | 50,000 | $0.32 | December 31, 2004 |
Officers | 30,000 | $0.32 | December 31, 2004 |
Discours | 50,000 | $0.32 | December 31, 2004 |
Employees | 15,000 | $0.32 | December 31, 2004 |
Officers | 5,000 | $0.32 | December 31, 2004 |
Discours | 50,000 | $0.32 | December 31, 2004 |
Consultants | 25,000 | $0.32 | December 31, 2004 |
Officers | 100,000 | $0.32 | December 31, 2004 |
Discours | 50,000 | $0.32 | December 31, 2004 |
Consultants | 75,000 | $0.32 | December 31, 2004 |
Officers | 50,000 | $0.32 | December 31, 2004 |

746,000 | 1,572,000 | 13,000 | 2,257,000 | 963,300 |

Warrants | Number of Shares | Price Per Share | Expiry Date | Issue Date
---|---|---|---|---
2,270,000 | $0.15 | May 16, 2004 | May 16, 2004 |
500,000 | $0.15 | December 23, 2004 | December 23, 2004 |
100,000 | $0.15 | March 15, 2004 | December 23, 2004 |
272,970 | $0.15 | December 23, 2004 | December 23, 2004 |
4,142,970

On behalf of the Board of Directors:

Donald McInters
President
Howe Sound Project (Rainy River)

The Rainy River Project is located on the western shore of Howe Sound, approximately 16 kilometers north of Gibson’s Landing. The project will divert flows from a high elevation intake on Rainy River into a 6km water conveyance system comprised of a low-pressure conduit and a 1.8 meter diameter penstock, which will lead to a surface powerhouse on the lower reach of the river.

The Rainy River Power Project has a design capacity of 20 megawatts and is expected to generate 72 Gigawatt hours of green energy per year, enough electricity to meet the needs of 7200 homes or fourteen 20-25 story office buildings. A third party contractor has estimated that capital costs for the project are approximately $32 million and, subject to financing and permitting, construction on the project is expected to commence in the first quarter of 2006. Construction will take approximately 18 months.

Rainy River presents a unique opportunity for Plutonic as a run-of-river hydroelectric development company. The pattern of seasonal run-off on Rainy River enables electricity to be generated predominantly from October to May. The value of this non-summer energy is deemed to be greater than that of energy generated in the summer.

Notes to Consolidated Financial Statements
December 31, 2004

7. SHARE CAPITAL

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

Issued and outstanding

<table>
<thead>
<tr>
<th>Common shares</th>
<th>Number of Shares</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issued and fully paid</td>
<td>1</td>
<td>$1</td>
</tr>
<tr>
<td>Issued for cash on incorporation</td>
<td>1,150,000</td>
<td>-</td>
</tr>
<tr>
<td>Issued for cash</td>
<td>2,500,000</td>
<td>480,873</td>
</tr>
<tr>
<td>Issued for mineral properties</td>
<td>50,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Issued for cash on the exercise of warrants</td>
<td>60,000</td>
<td>15,000</td>
</tr>
<tr>
<td>Issued for mineral property</td>
<td>100,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Issued for cash, net of share issue costs of $811,398</td>
<td>1,532,500</td>
<td>490,400</td>
</tr>
<tr>
<td>Issued for acquisition of Plutonic Hydro Inc. (Note 2)</td>
<td>1,205,000</td>
<td>330,600</td>
</tr>
</tbody>
</table>

Balance, December 31, 2004 | 12,126,669 | $3,802,368 |

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

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

The Company issues share purchase options to directors, officers, and employees of the Company and persons who provide ongoing services to the Company under an incentive stock option plan dated May 3, 2004 and has reserved 20% of the outstanding common shares for issue of share purchase options under this plan. As of December 31, 2004, the Company has issued 750,000 share purchase options in excess of the 20% reservation. These options are subject to approval of the shareholders at the next annual general meeting.

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Twelve project sites fall within an area that the Company has dubbed The Green Power Corridor. The area will be accessed through the construction of a 145 kilometer long 230 kV circuit transmission line running from Saltery Bay to the Montrose Creek and East Toba Projects. When built it will interconnect all twelve Green Power Corridor Projects and is expected to have a total installed capacity of 170 MW with the potential to generate approximately 600 gigawatt-hours per year.

Completion of the Green Power Corridor would be one of the largest single private sector electrical generation investments made in British Columbia, creating over 2160 job years of employment and launching the Province to the forefront of green energy generation in North America.

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

4. POWER PROJECTS (continued)

East Toba and Montrose Creek, Green Power Corridor

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

5. MINERAL PROPERTY

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

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

6. EQUIPMENT

<table>
<thead>
<tr>
<th></th>
<th>Accumulated Amortization</th>
<th>2004 Net Book Value</th>
<th>2003 Net Book Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer equipment</td>
<td>$ 7,573</td>
<td>$ 1,136</td>
<td>$ 6,437</td>
</tr>
</tbody>
</table>
East Toba and Montrose Creek Projects

The Green Power Corridor Phase I is located at the headwaters of the Toba Inlet on the East Toba River and Montrose Creek. Total installed capacity of these two facilities will be 170 MW with an expected annual energy generation of 601 GWh.

These project locations were chosen for the attributes necessary for successful, stable hydro-electric power production: high rainfall with large drainage basin areas resulting in high unit runoff and steep terrain resulting in high head flow with short penstock feed.

Interconnection of the two projects to the BC Transmission Corporation (BCTC) grid is planned for a location on the northeast side of Jervis Inlet where a new substation would be built at Saltery Bay. From this substation, a 230 kV transmission line would extend 145 km in a roughly northward direction to the top of Toba Inlet, then northeast to the proposed generating plants for the two projects. Transmission route studies have been completed and construction of the transmission line will be engineered to utilize, to the greatest extent possible, an extensive pre-existing network of logging roads covering the proposed corridor. Use of existing infrastructure will reduce construction costs while also keeping environmental impacts to a minimum.

Preliminary studies suggest that most of the transmission route can be completed using wooden poles.

The two facilities proposed on the East Toba River and Montrose Creek have the potential to produce enough electricity for over 60,000 homes and the ability to displace over 400,000 tonnes of greenhouse gases annually, equivalent to the emissions of approximately 80,000 cars per year.

A major project milestone was achieved when, in September 2004, the company was given a Section 10.1 order from the British Columbia Environmental Assessment Office which binds these projects to the Environmental Assessment process. A Project Application is expected to be filed in the third quarter of 2005.
2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based Compensation (continued)

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

Loss Per Share

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

Use of Estimates

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

3. CHANGES IN ACCOUNTING STANDARDS

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

4. POWER PROJECTS

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

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

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

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

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

- **Cash and accounts receivable**: $35,572
- **Power prospect development costs**: 654,387
- **Liabilities**: (707,309)
  - **Deemed value of shares issued**: 490,400

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

**Power Project Development Costs**

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

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

**Reclamation**

The Company’s activities are subject to various federal and provincial laws and regulations governing operations and the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to comply with all applicable laws and regulations and to protect public health and the environment and believes its operations are materially in compliance with all applicable statutory requirements. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations. The ultimate amount of reclamation and other future costs to be incurred for the Company’s operations is uncertain.
therefore, may be interconnected at a smaller installed capacity to the BC Hydro distribution grid system. Ruby Creek studies have shown the project continues to compete favourably to original design estimates and capacity on the BCTC system shows room for Ruby Creek. An interconnection study has also been completed for the Ruby Creek Project and shows that interconnection at the BC Hydro substation at Waleach is economically and technically possible.

Rainy River (Howe Sound) Project
In October 2004, a development agreement was announced for the Rainy River Project with Howe Sound Pulp and Paper Limited Partnership. Stages 1 and 2 towards securing a Water License and Crown Land rights from Land and Water British Columbia have been completed. Initial desk top designs for the project is for the construction of one facility with an installed capacity of about 20 MW and the potential to generate approximately 72 GWh.

Green Power Corridor (Toba and Bute Inlets)
The Green Power Corridor comprises of two projects at the top of Toba Inlet, one project in the Upper Lilcoot Valley and nine projects at the top of Bute Inlet. Stages 1 and 2 towards securing a Water License and Crown Land rights from Land and Water British Columbia have been completed for all GPC Projects. The GPC Projects will collectively have an installed capacity of about 720 MW and the potential to generate approximately 2300 GWh/year.

Development of the GPC Projects is dependant on the successful resolution of numerous obstacles including interconnection to the BCTC transmission grid. Various interconnection options have been considered. The most promising option appears to be the development of the GPC projects in a phased approach beginning with the initial concurrent development of the East Toba River and Montrose Creek Projects and the construction of a 230 kV 145 kilometre long transmission line connecting to the grid at Salthy Bay, located east of Powell River. These two projects (Phase 1a) will have a combined installed capacity of about 170 MW and the potential to generate approximately 600 GWh/year. Upon completion of Phase 1a, a stepped approach will be used for the development of the other GPC projects.

In September, 2004, the East Toba and Montrose Creek projects were accepted into the Environmental Assessment Permitting Process ("EAP process"). It is expected that the permitting process will take up to 18 months, with a targeted completion date in the second quarter of 2006. As part of the process, a series of consultation meetings have been held with various federal and provincial government agencies as well as with the First Nations, stakeholder groups and the community of Powell River.

At the East Toba and Montrose Creek projects, environmental, wildlife and hydrological studies were initiated in 2003 and are continuing. A detailed transmission interconnection study has been completed.

Europa Creek Project
Stages 1 and 2 towards securing a Water License and Crown Land rights from Land and Water British Columbia have been completed for the 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. A unique feature of the Europa Project is that Europa Creek flows from a large high altitude lake, which will act as a water reservoir effectively adding a valuable capacity factor to the project.

Plutonic will need to establish a relationship with Alcan Inc., owner and operator of a power generating station and transmission line, for access to the electric transmission grid of the British Columbia Transmission Corporation. Subject to financing and permitting, construction on the project could commence in late 2006 and would take about 18 months to complete.
## PLUTONIC POWER CORPORATION

### Consolidated Statements of Cash Flows

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2004 (12 Months)</th>
<th>December 31, 2003 (6 Months)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Flows Used For Operating Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash paid to suppliers</td>
<td>$ (166,063)</td>
<td>$ (53,494)</td>
</tr>
<tr>
<td><strong>Cash Flows Used For Investing Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Power project expenditures</td>
<td>(1,177,065)</td>
<td>(155,000)</td>
</tr>
<tr>
<td>Mineral property expenditures</td>
<td>-</td>
<td>(28,000)</td>
</tr>
<tr>
<td><strong>Increase in Cash</strong></td>
<td>(1,184,638)</td>
<td>(183,000)</td>
</tr>
<tr>
<td><strong>Cash Flows From Financing Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares issued</td>
<td>2,914,534</td>
<td>383,000</td>
</tr>
<tr>
<td>Share subscriptions received</td>
<td>-</td>
<td>372,500</td>
</tr>
<tr>
<td>Share issue costs</td>
<td>(233,398)</td>
<td>(16,000)</td>
</tr>
<tr>
<td><strong>Increase in Cash</strong></td>
<td>2,681,136</td>
<td>739,500</td>
</tr>
<tr>
<td><strong>CASH, Beginning of Period</strong></td>
<td>1,330,435</td>
<td>503,006</td>
</tr>
<tr>
<td><strong>CASH, End of Period</strong></td>
<td>$ 1,923,424</td>
<td>$ 592,989</td>
</tr>
</tbody>
</table>

### Supplementary Information on Non-Cash Transactions

<table>
<thead>
<tr>
<th>Particulars</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares issued for mineral property interests</td>
<td>$ 30,000</td>
<td>$ 10,000</td>
</tr>
<tr>
<td>Shares issued for acquisition of subsidiary company</td>
<td>490,400</td>
<td>-</td>
</tr>
<tr>
<td>Future income taxes – flow through share renunciation</td>
<td>567,000</td>
<td>-</td>
</tr>
</tbody>
</table>

### PLUTONIC POWER CORPORATION

#### Tide Property, British Columbia

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

#### Selected Financial Information

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2004</th>
<th>December 31, 2003</th>
<th>December 31, 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Net Loss</strong></td>
<td>$467,317</td>
<td>$136,793</td>
<td>$16,527</td>
</tr>
<tr>
<td><strong>Loss Per Share</strong></td>
<td>$0.07</td>
<td>$0.04</td>
<td>$0.01</td>
</tr>
<tr>
<td><strong>Loss Per Diluted Share</strong></td>
<td>$0.07</td>
<td>$0.04</td>
<td>$0.01</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$3,769,802</td>
<td>$767,650</td>
<td>$9,594</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>$3,672,200</td>
<td>$750,682</td>
<td>$34,432</td>
</tr>
</tbody>
</table>

The Company was in start up stages in 2002 and 2003. The increase in expenses and assets in 2004 is primarily due to the acquisition of Plutonic Hydro Inc. (formerly 648795 B.C. Ltd.), subsequent financings and commencement of active development of the run of river projects and the related administration expenses thereof. The Company currently has no revenues as a result of operations.

#### Financial Overview

Financial losses for 2004 were up significantly over the losses incurred in the period ended December 31, 2003. The December 2003 financing was closed during the 2004 fiscal year in which 2,270,000 shares were issued generating $538,171 in working capital. 775,000 warrants and options were exercised generating an additional $193,000. A total of 1,532,500 shares were also issued for the acquisition of Plutonic Hydro Inc. (Note 2 and 7 of Financial Statements).

On December 23rd, 2004, the Company closed a brokered private placement financing for gross proceeds of $2,341,600 through the sale of 1,016,000 flow-through units and 2,184,000 non-flow-through units. Each $0.80 flow-through unit consisted of one flow-through common share and one half of one common share purchase warrant with each whole warrant entitling the holder to purchase a further common share at $1.60 until December 15, 2005. Each $0.70 non-flow-through unit consisted of one regular common share and one half of one common share purchase warrant with each whole warrant entitling the holder to purchase a further common share at $1.10 until March 15, 2006. If exercised, these warrants have the potential of adding $4,720,000 to the Company treasury. Proceeds of the financing shall be used for general administrative purposes and to continue funding development of the Company’s portfolio of run of river green hydroelectric power development projects. Insiders of Plutonic purchased 190,750 units of the issue.

Future Income Taxes represents the tax value of the deductions renounced to the subscribers of the flow-through shares. These taxes may become payable as a result of the Company not being able to claim these deductions when the Company begins generating taxable income.

Administration expenses were higher during the 2004: $438,069 compared with $86,846 for the six month period ended December 31, 2003. Expenses were generally up in all categories over the previous period as the Company increased its activities in all areas. Management fees, support costs and legal fees increased significantly as did listing and filing fees. The Company’s policy of using fair-value for share-based compensation expenses (Black Scholes) increased the net loss to $467,317, which also includes the $30,000 cost of abandonment of the Tide mineral property interest.

As of year-end 2004, the Company had a net working capital of $1,855,409, compared to a net working capital of $599,588 as at December 31, 2003. The private placement closed in December was the primary reason for the increase in net working capital.
PLUTONIC POWER CORPORATION

Results of Operations

The Company incurred a net loss in the year ending December 31st, 2004, of $467,317 ($0.07 per share) compared to a net loss of $316,793 ($0.04 per share) in the period ending December 31st, 2003. In the current quarter ending December 31st, 2004, losses were $143,072 compared to $116,285 for the same three month period of 2003. Share based compensation, $187,745 (2003 - $31,313) and a mineral property write off, $30,000 (2003 - $49,947) amounted to 47% of the total loss for the period.

Support services, travel, promotion and office expenses increased to $83,563 (2003 - $9,050) for the year and to $38,564 (2003 - $9,050) for the three month period ending December 31st, 2004. This was a result of additional staff and expenses required for the operation of the Company. Management fees of $41,603 (2003 - $17,823) for 2004 and $12,615 (2003-$16,490) for the current three month period, were higher due to a change in fee structure and generally higher expenditures overall. Professional fees of $55,659 were up stages in 2003. The main reason for increased expenses in 2004 has been the effective commencement of active development of the run of river projects and the related administration thereof. The Company currently has no revenues as a result of operations.

Summary of Quarterly Results

The following table summarizes information regarding the Company's operations on a quarterly basis for the last three fiscal years.

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Revenue</th>
<th>Loss Before Extraordinary Items</th>
<th>Net Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Loss</td>
<td>Per Share</td>
</tr>
<tr>
<td>31-Dec-04</td>
<td>0.00</td>
<td>$131,072</td>
<td>$0.07</td>
</tr>
<tr>
<td>30-Sep-04</td>
<td>0.00</td>
<td>$109,128</td>
<td>$0.02</td>
</tr>
<tr>
<td>30-Jun-04</td>
<td>0.00</td>
<td>$13,282</td>
<td>$0.01</td>
</tr>
<tr>
<td>31-Mar-04</td>
<td>0.00</td>
<td>$13,091</td>
<td>$0.01</td>
</tr>
<tr>
<td>30-Sep-04</td>
<td>0.00</td>
<td>$13,091</td>
<td>$0.01</td>
</tr>
<tr>
<td>30-Jun-04</td>
<td>0.00</td>
<td>$12,462</td>
<td>$0.01</td>
</tr>
<tr>
<td>31-Mar-04</td>
<td>0.00</td>
<td>$18,527</td>
<td>$0.01</td>
</tr>
<tr>
<td>30-Sep-04</td>
<td>0.00</td>
<td>$22,818</td>
<td>$0.02</td>
</tr>
</tbody>
</table>

Liquidity and Capital Resources

Plutonic Power Corporation has no history of profitable operations and its projects are at an early stage. Therefore, it is subject to many risks common to comparable companies, including under-capitalization, cash shortages and limitations with respect to personnel, financial and other resources as well as a lack of revenues.

Plutonic Power Corporation is very dependent upon personal efforts and commitments of its existing management. To the extent that management’s services would be unavailable for any reason, a disruption to the operations of Plutonic could result and other persons would be required to manage and operate the Company.

PLUTONIC POWER CORPORATION

Consolidated Statements of Loss and Deficit

<table>
<thead>
<tr>
<th>December 31</th>
<th>2004 (12 Months)</th>
<th>2003 (6 Months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization</td>
<td>$1,136</td>
<td>$-</td>
</tr>
<tr>
<td>Dues and subscriptions</td>
<td>$3,278</td>
<td>$1,462</td>
</tr>
<tr>
<td>Management fees</td>
<td>$41,603</td>
<td>$17,823</td>
</tr>
<tr>
<td>Office</td>
<td>$24,878</td>
<td>$2,627</td>
</tr>
<tr>
<td>Professional fees</td>
<td>$55,659</td>
<td>$4,856</td>
</tr>
<tr>
<td>Rent</td>
<td>$21,162</td>
<td>$3,000</td>
</tr>
<tr>
<td>Share-based compensation (Note 7)</td>
<td>$187,745</td>
<td>$31,313</td>
</tr>
<tr>
<td>Support services</td>
<td>$19,530</td>
<td>$3,665</td>
</tr>
<tr>
<td>Transfer agent and listing fees</td>
<td>$43,923</td>
<td>$12,316</td>
</tr>
<tr>
<td>Travel and promotion</td>
<td>$39,335</td>
<td>$2,758</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>438,069</strong></td>
<td><strong>79,620</strong></td>
</tr>
</tbody>
</table>

Less Interest Income

752 -

Loss Before the Following

437,317 79,620

Tide Property Costs Written Off

30,000 49,947

DEFICIT, Beginning of Period

455,557 325,990

DEFICIT, End of Period

$922,874 $455,557

Basic and Diluted Loss Per Share

$0.07 $0.04
## Consolidated Balance Sheets

### Assets

<table>
<thead>
<tr>
<th>Component</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current</strong></td>
<td>$1,923,424</td>
<td>$592,989</td>
</tr>
<tr>
<td>Cash</td>
<td>31,235</td>
<td>3,661</td>
</tr>
<tr>
<td>Prepaid financing costs</td>
<td>5,000</td>
<td>16,000</td>
</tr>
<tr>
<td><strong>Power Projects (Note 4)</strong></td>
<td>1,803,706</td>
<td>155,000</td>
</tr>
<tr>
<td><strong>Equipment (Note 6)</strong></td>
<td>6,437</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Current</strong></td>
<td>$3,769,802</td>
<td>$767,650</td>
</tr>
</tbody>
</table>

### Liabilities

<table>
<thead>
<tr>
<th>Component</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current</strong></td>
<td>$104,250</td>
<td>$13,062</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>567,000</td>
<td>-</td>
</tr>
<tr>
<td>Future Income Taxes</td>
<td>671,250</td>
<td>13,062</td>
</tr>
<tr>
<td><strong>Total Current</strong></td>
<td>$3,769,802</td>
<td>$767,650</td>
</tr>
</tbody>
</table>

### Shareholders’ Equity

<table>
<thead>
<tr>
<th>Component</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share Capital (Note 7)</td>
<td>3,802,368</td>
<td>806,332</td>
</tr>
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<td>-</td>
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</tr>
<tr>
<td>Contributed Surplus (Note 7)</td>
<td>219,058</td>
<td>31,313</td>
</tr>
<tr>
<td>Deficit</td>
<td>(922,874)</td>
<td>(455,557)</td>
</tr>
<tr>
<td><strong>Total Shareholders’ Equity</strong></td>
<td>$3,098,552</td>
<td>754,588</td>
</tr>
</tbody>
</table>

### Shareholders’ Equity Summary

<table>
<thead>
<tr>
<th>Component</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>$3,769,802</td>
<td>$767,650</td>
</tr>
</tbody>
</table>

### APPROVED BY THE BOARD:

- Donald A. McInnes
- R. Stuart Angus

---

The Company has a net working capital of $1,855,409 at December 31st, 2004 compared to a net working capital of $599,588 the fiscal year end 2003. The current level of working capital will be sufficient for the remainder of the 2005 fiscal year at the budgeted levels of expenditures. The Company currently has no debt.

The Company’s issued and outstanding shares were 3,760,000 at December 31, 2003, 2,270,000 shares were issued for cash and 100,000 shares were issued for the mineral property during the first six month period of the year, generating $538,171 (net of share issue costs, $29,329) and the exercise of share purchase warrants and options (1,205,000) added a further $330,600 to the treasury. The Company issued 1,532,500 for the acquisition of 648795 B.C. Ltd. 3,259,169 shares were issued in December 2004 through a private placement issue, adding gross proceeds of $2,341,600 to the Company treasury. These transactions increased the Company’s issued and outstanding shares to 12,126,669 as at December 31st, 2004.

The Company issued 1,532,000 director and employee common share purchase options in 2004. 782,000 of these options are exercisable at $0.32 and expire on May 17, 2009. 150,000 officers common share purchase warrants were issued and exercisable at $0.65 expiring on September 29, 2009. An additional 600,000 officers common share purchase warrants were issued and exercisable at $0.75 expiring on November 23, 2009. In total 2,257,000 directors, employees and officers common share purchase options remain outstanding. A total of 4,142,770 share purchase warrants remain outstanding at December 31st, 2004. If all remaining options and warrants were exercised, a maximum of $4,001,402 would be added to the Company treasury and the outstanding shares would total 18,326,439 (fully diluted shares).

### Risk Factors

The ability of Plutonic to become a viable run of river hydro electric company is dependent on a number of factors and includes, but is not limited to, the following: successful completion of hydrological studies to confirm that water flows are sufficient to generate enough electricity to provide a suitable return on investment; the successful negotiation of a long term contract with a purchaser of energy for the Company’s projects, the ability to secure financing to construct the projects; the successful negotiation with First Nations groups that may have a claim to the land base where Plutonic’s projects lie, the ability to connect the projects to the electrical grid and being able to secure long term financing to construct any projects that are deemed to be feasible once all permits and designs are in place.

### Off-Balance Sheet Arrangements

The Company does not utilize off-balance sheet arrangements.

### Transactions with Related Parties

During the year ending December 31, 2004, the Company paid McGillicutty Management Corp., a company owned by a director and officer of the company, $149,020 (2003 - $32,107) for management fees, office services and reimbursement of expenses.

### Proposed Transactions

There are no proposed transactions that will materially affect the Company’s performance. The Company has a business plan that includes identifying other green energy projects, conducting initial engineering and design studies and if found feasible the company will endeavour to secure long term financing to facilitate the construction thereof.

### Critical Accounting Estimates

Not applicable.
PLUTONIC POWER CORPORATION

Changes in Accounting Policies Including Initial Adoption

The Company adopted the new accounting recommendations of the Canadian Institute of Chartered Accountants on accounting for share-based compensation of employees and non-employees during this fiscal year. These recommendations established the standards described in the Notes to the consolidated financial statements for the measurement, recognition and disclosure of compensation and other costs arising from the issue of share purchase options and other share-based payments to employees and non-employees. The Company accounted for these recommendations on the retroactive basis.

Financial Instruments and Other Instruments

The Company does not employ a hedging strategy or a foreign exchange protection strategy. All of the Company’s expenses are denominated in Canadian dollars.

Other Requirements

The Company has filed an alternate form of Annual Information Form on SEDAR at www.sedar.com. The Company also files all press releases and material change reports on SEDAR. Additional information about the Company can be accessed at the Company’s website http://www.plutonic.ca.

Additional Disclosure for Venture Issuers without Significant Revenue

Please refer to the Statement of Loss and Deficit in the June financial statements regarding the components of general and administrative and exploration costs for the Company.

Disclosure of Outstanding Share Data

Please refer to Notes to Consolidated Financial Statements, Section 7: Share Capital.

Hay & Watson CHARTERED ACCOUNTANTS

AUDITORS’ REPORT

To the Shareholders of Plutonic Power Corporation

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

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

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

Chartered Accountants

Vancouver, B.C.
February 2, 2005

1822 West 2nd Avenue, Vancouver, B.C. V6J 1H9 Tel: (604) 732-1466 Fax: (604) 732-3133
PLUTONIC POWER CORPORATION

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Chartered Accountants

Vancouver, B.C.
February 2, 2005
### PLUTONIC POWER CORPORATION

#### Consolidated Balance Sheets

<table>
<thead>
<tr>
<th></th>
<th>December 31</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
<td>2003</td>
<td></td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td></td>
<td></td>
<td></td>
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<tr>
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<td></td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
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<td>$13,062</td>
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</tr>
<tr>
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<td>13,062</td>
<td></td>
</tr>
<tr>
<td><strong>SHAREHOLDERS’ EQUITY</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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<td>806,332</td>
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<td>$3,769,802</td>
<td>$767,650</td>
<td></td>
</tr>
</tbody>
</table>

**APPROVED BY THE BOARD:**

“Donald A. McInnes”  
Director

“R. Stuart Angus”  
Director

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PLUTONIC POWER CORPORATION

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The Company incurred a net loss in the year ending December 31, 2004, of $467,317 ($0.07 per share) compared to a net loss of $336,793 ($0.04) in the period ending December 31, 2003. In the current quarter ending December 31, 2004, losses were $143,072 compared to $116,285 for the same three month period of 2003. Share based compensation, $187,745 (2003 - $31,313) and a mineral property write off, $30,000 (2003 - $49,947) amounted to 47% of the total loss for the period.

Support services, travel, promotion and office expenses increased to $83,563 (2003 - $9,050) for the year and to $38,563 (2003- $9,379) for the three month period ending December 31, 2004. This was a result of additional staff and expenses required for the operation of the Company. Management fees of $41,603 (2003 - $17,823) for 2004 and $12,615 (2003-$16,490) for the current three month period, were higher due to a change in fee structure and generally higher expenditures overall. Professional fees of $55,659 were incurred in 2004 (2003 - $17,823), 2004. This was a result of additional staff and expenses required for the operation of the Company. Management fees of $41,603 (2003 - $17,823) for 2004 and $12,615 (2003-$16,490) for the current three month period, were higher due to a change in fee structure and generally higher expenditures overall. Professional fees of $55,659 were incurred in 2004 (2003 - $4,656). For the current quarter, professional fees amounted to $22,333 compared to $4,656 last year.

It should be noted that the Company was in the startup stages in 2003. The main reason for increased expenses in 2004 has been the effective commencement of active development of the run of river projects and the related administration thereof. The Company currently has no revenues as a result of operations.

Summary of Quarterly Results

The following table summarizes information regarding the Company's operations on a quarterly basis for the last three fiscal years.

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Revenue</th>
<th>Loss Before Extraordinary Items (Loss Per Share)</th>
<th>Net Loss (Loss Per Share)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Loss</td>
<td>Per Share</td>
</tr>
<tr>
<td>31-Dec-04</td>
<td>$0.00</td>
<td>$113,072</td>
<td>$0.07</td>
</tr>
<tr>
<td>30-Sep-04</td>
<td>$0.00</td>
<td>$109,128</td>
<td>$0.02</td>
</tr>
<tr>
<td>30-Jun-04</td>
<td>$0.00</td>
<td>$116,091</td>
<td>$0.02</td>
</tr>
<tr>
<td>31-Mar-04</td>
<td>$0.00</td>
<td>$99,026</td>
<td>$0.02</td>
</tr>
<tr>
<td>31-Dec-03</td>
<td>$0.00</td>
<td>$79,620</td>
<td>$0.02</td>
</tr>
<tr>
<td>30-Sep-03</td>
<td>$0.00</td>
<td>$13,282</td>
<td>$0.01</td>
</tr>
<tr>
<td>30-Jun-03</td>
<td>$0.00</td>
<td>$40,038</td>
<td>$0.02</td>
</tr>
<tr>
<td>31-Mar-03</td>
<td>$0.00</td>
<td>$22,818</td>
<td>$0.02</td>
</tr>
<tr>
<td>31-Dec-02</td>
<td>$0.00</td>
<td>$83,563</td>
<td>$0.02</td>
</tr>
<tr>
<td>30-Sep-02</td>
<td>$0.00</td>
<td>$116,285</td>
<td>$0.02</td>
</tr>
</tbody>
</table>

Liquidity and Capital Resources

Plutonic Power Corporation has no history of profitable operations and its projects are at an early stage. Therefore, it is subject to many risks common to comparable companies, including under-capitalization, cash shortages and limitations with respect to personnel, financial and other resources as well as a lack of revenues.

Plutonic Power Corporation is very dependent upon personal efforts and commitments of its existing management. To the extent that management’s services would be unavailable for any reason, a disruption to the operations of Plutonic could result and other persons would be required to manage and operate the Company.

PLUTONIC POWER CORPORATION

Consolidated Statements of Loss and Deficit

Consolidated Statements of Loss and Deficit

<table>
<thead>
<tr>
<th>December 31</th>
<th>2004 (12 Months)</th>
<th>2003 (6 Months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenses</td>
<td>Amortization</td>
<td>$1,136</td>
</tr>
<tr>
<td></td>
<td>Dues and subscriptions</td>
<td>$3,278</td>
</tr>
<tr>
<td></td>
<td>Management fees</td>
<td>$41,603</td>
</tr>
<tr>
<td></td>
<td>Office</td>
<td>$24,878</td>
</tr>
<tr>
<td></td>
<td>Professional fees</td>
<td>$55,659</td>
</tr>
<tr>
<td></td>
<td>Rent</td>
<td>$21,162</td>
</tr>
<tr>
<td></td>
<td>Share-based compensation (Note 7)</td>
<td>$187,745</td>
</tr>
<tr>
<td></td>
<td>Support services</td>
<td>$19,350</td>
</tr>
<tr>
<td></td>
<td>Transfer agent and listing fees</td>
<td>$43,923</td>
</tr>
<tr>
<td></td>
<td>Travel and promotion</td>
<td>$39,335</td>
</tr>
<tr>
<td></td>
<td>Loss before extraordinary items</td>
<td>$437,317</td>
</tr>
<tr>
<td></td>
<td>Less Interest Income</td>
<td>$752</td>
</tr>
<tr>
<td></td>
<td>Loss Before the Following</td>
<td>$437,317</td>
</tr>
<tr>
<td></td>
<td>Tide Property Costs Written Off</td>
<td>$30,000</td>
</tr>
<tr>
<td></td>
<td>NET LOSS</td>
<td>$455,557</td>
</tr>
<tr>
<td></td>
<td>DEFICIT, Beginning of Period</td>
<td>$455,557</td>
</tr>
<tr>
<td></td>
<td>DEFICIT, End of Period</td>
<td>$922,874</td>
</tr>
<tr>
<td></td>
<td>Basic and Diluted Loss Per Share</td>
<td>$0.07</td>
</tr>
</tbody>
</table>

4
Consolidated Statements of Cash Flows

PLUTONIC POWER CORPORATION

December 31

<table>
<thead>
<tr>
<th></th>
<th>2004 (12 Months)</th>
<th>2003 (6 Months)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Flows Used For Operating Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash paid to suppliers</td>
<td>$ (166,063)</td>
<td>$(53,494)</td>
</tr>
<tr>
<td><strong>Cash Flows Used For Investing Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Power project expenditures</td>
<td>(1,177,065)</td>
<td>(155,000)</td>
</tr>
<tr>
<td>Mineral property expenditures</td>
<td>-</td>
<td>(28,000)</td>
</tr>
<tr>
<td><strong>Increase in Cash</strong></td>
<td>(1,184,638)</td>
<td>(183,000)</td>
</tr>
<tr>
<td><strong>Cash Flows From Financing Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares issued</td>
<td>2,914,534</td>
<td>383,000</td>
</tr>
<tr>
<td>Share subscriptions received</td>
<td>-</td>
<td>372,500</td>
</tr>
<tr>
<td>Share issue costs</td>
<td>(233,398)</td>
<td>(16,000)</td>
</tr>
<tr>
<td><strong>Increase in Cash</strong></td>
<td>2,681,136</td>
<td>739,500</td>
</tr>
<tr>
<td><strong>CASH, Beginning of Period</strong></td>
<td>592,989</td>
<td>89,983</td>
</tr>
<tr>
<td><strong>CASH, End of Period</strong></td>
<td>$1,295,424</td>
<td>$592,989</td>
</tr>
<tr>
<td><strong>Supplementary Information on Non-Cash Transactions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares issued for mineral property interests</td>
<td>$30,000</td>
<td>$10,000</td>
</tr>
<tr>
<td>Shares issued for acquisition of subsidiary company</td>
<td>490,400</td>
<td>-</td>
</tr>
<tr>
<td>Future income taxes – flow through share renunciation</td>
<td>567,000</td>
<td>-</td>
</tr>
</tbody>
</table>

Selected Financial Information

The Company was in start up stages in 2002 and 2003. The increase in expenses and assets in 2004 is primarily due to the acquisition of Plutonic Hydro Inc. (formerly 648795 B.C. Ltd.), subsequent financings and commencement of active development of the run of river projects and the related administration expenses thereof. The Company currently has no revenues as a result of operations.

Financial Overview

Financial losses for 2004 were up significantly over the losses incurred in the period ended December 31, 2003. The December 2003 financing was closed during the 2004 fiscal year in which 2,270,800 shares were issued generating $538,171 in working capital. 775,000 warrants and options were exercised generating an additional $193,000. A total of 1,532,500 shares were also issued for the acquisition of Plutonic Hydro Inc. (Note 2 and 7 of Financial Statements).

On December 23rd, 2004, the Company closed a brokered private placement financing for gross proceeds of $2,341,600 through the sale of 1,016,000 flow-through units and 2,184,000 non-flow-through units. Each $0.80 flow-through unit consisted of one flow-through common share and one half of one common share purchase warrant with each whole warrant entitling the holder to purchase a further common share at $1.60 until December 15, 2005. Each $0.70 non-flow-through unit consisted of one regular common share and one half of one common share purchase warrant with each whole warrant entitling the holder to purchase a further common share at $1.10 until March 15, 2006. If exercised, these warrants have the potential of adding $4,720,000 to the Company’s share capital.

The Company’s policy of using fair-value for share-based compensation expenses (Black Scholes) increased the net loss to $467,317, which also includes the $30,000 cost of abandonment of the Tide mineral property interest.

Future Income Taxes represents the tax value of the deductions renounced to the subscribers of the flow-through shares. These taxes may become payable as a result of the Company not being able to claim these deductions when the Company begins generating taxable income.

Administration expenses were higher during the 2004: $438,069 compared with $86,846 for the six month period ended December 31, 2003. Expenses were generally up in all categories over the previous period as the Company increased its activities in all areas. Management fees, support costs and legal fees increased significantly as did listing and filing fees. The Company’s policy of using fair-value for share-based compensation expenses (Black Scholes) increased the net loss to $467,317, which also includes the $30,000 cost of abandonment of the Tide mineral property interest.

As of year-end 2004, the Company had a net working capital of $1,055,409, compared to a net working capital of $599,588 as at December 31, 2003. The private placement closed in December was the primary reason for the increase in net working capital.
therefore, may be interconnected at a smaller installed capacity to the BC Hydro distribution grid system. Ruby Creek studies have shown the project continues to compete favourably to original design estimates and capacity on the BCTC system shows room for Ruby Creek. An interconnection study has also been completed for the Ruby Creek Project and shows that interconnection at the BC Hydro substation at Waleach is economically and technically possible.

Rainy River (Howe Sound) Project
In October 2004, a development agreement was announced for the Rainy River Project with Howe Sound Pulp and Paper Limited Partnership. Stages 1 and 2 towards securing a Water License and Crown Land rights from Land and Water British Columbia have been completed. Initial desk top designs for the project is for the construction of one facility with an installed capacity of about 20 MW and the potential to generate approximately 72 GWh.

Green Power Corridor (Toba and Bute Inlets)
The Green Power Corridor comprises of two projects at the top of Toba Inlet, one project in the Upper Lilooet Valley and nine projects at the top of Bute Inlet. Stages 1 and 2 towards securing a Water License and Crown Land rights from Land and Water British Columbia have been completed for all GPC Projects. The GPC Projects will collectively have an installed capacity of about 720 MW and the potential to generate approximately 2300 GWh/year.

Development of the GPC Projects is dependant on the successful resolution of numerous obstacles including interconnection to the BCTC transmission grid. Various interconnection options have been considered. The most promising option appears to be the development of the GPC projects in a phased approach beginning with the initial concurrent development of the East Toba River and Montrose Creek Projects and the construction of a 230 kV 145 kilometre long transmission line connecting to the grid at Saltchy Bay, located east of Powell River. These two projects (Phase 1a) will have a combined installed capacity of about 170 MW and the potential to generate approximately 600 GWh/year. Upon completion of Phase 1a, a stepped approach will be used for the development of the other GPC projects.

In September, 2004, the East Toba and Montrose Creek projects were accepted into the Environmental Assessment Permitting Process (“EAP”). It is expected that the permitting process will take up to 18 months, with a targeted completion date in the second quarter of 2006. As part of the process, a series of consultation meetings have been held with various federal and provincial government agencies as well as with the First Nations, stakeholder groups and the community of Powell River.

At the East Toba and Montrose Creek projects, environmental, wildlife and hydrological studies were initiate din 2003 and are continuing. A detailed transmission interconnection study has been completed.

Europa Creek Project
Stages 1 and 2 towards securing a Water License and Crown Land rights from Land and Water British Columbia have been completed for the 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. A unique feature of the Europa Project is that Europa Creek flows from a large high altitude lake, which will act as a water reservoir effectively adding a valuable capacity factor to the project.

Plutonic will need to establish a relationship with Alcan Inc., owner and operator of a power generating station and transmission line, for access to the electric transmission grid of the British Columbia Transmission Corporation. Subject to financing and permitting, construction on the project could commence in late 2006 and would take about 18 months to complete.

PLUTONIC POWER CORPORATION

Notes to Consolidated Financial Statements
December 31, 2004

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

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

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

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

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

Notes to Consolidated Financial Statements
December 31, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Acquisition and Basis of Presentation (continued)

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

Cash and accounts receivable $ 35,572
Power prospect development costs 654,387
Liabilities (707,309)

(17,150)

Deemed value of shares issued 490,400
Net acquisition cost of power projects $507,550

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

Power Project Development Costs

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

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

Reclamation

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

PLUTONIC POWER CORPORATION

FORM 51 – 102F1

MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2004

April 18, 2005

This Management’s Discussion and Analysis for the year ended December 31, 2004, supplements, but does not form part of, the annual consolidated financial statements of the Company and the notes thereto. Consequently, the following discussion and analysis of the financial condition and the results of operations for Plutonic Power Corporation (“Plutonic” or the “Company”), should be read in conjunction with the annual consolidated financial statements for the period ended December 31, 2004 and related notes therein, which have been prepared in accordance with the Canadian Generally Accepted Accounting Principles (GAAP), consistently applied.

Additional information, including audited consolidated financial statements, and the notes thereto, for the year ended December 31, 2003, can be found on SEDAR at www.sedar.com.

Overall Performance

Plutonic Power Corporation (the Company) is a “green energy” hydroelectric company involved in the development of seventeen run of river projects in British Columbia. The Company trades on the TSX Venture Exchange under the symbol PCC.

In the 1st quarter of 2004, the Company completed the purchase of a 100% interest in Plutonic Hydro Ltd., formerly 648795 B.C. Ltd., through the issuance of 1,532,500 common shares and closed a non-brokered private placement financing for gross proceeds of $567,500. The consideration for this acquisition was the issuance of common shares of the Company, representing 20% of the then issued common shares in the Company, on completion of the acquisition. Plutonic Hydro Inc. currently has interests in power projects located near Hope and Kitimat, in Howe Sound and a group of projects collectively referred to as the Green Power Corridor (“GPC”) in Toba and But Inlet, British Columbia.

In December, the Company closed a private placement financing for gross proceeds of $2,341,600 through the sale of 1,016,000 flow-through units and 2,184,000 non-flow-through units. These funds will be used for ongoing expenses related to the development of the Company’s hydroelectric projects.

While preliminary design and engineering work continues to suggest that the Hope, Howe Sound, Kitimat and GPC Projects are viable, they are each dependant on securing an energy purchase agreement, equity and debt financing for construction and interconnection with the transmission grid.

Hope Projects

Stages 1 and 2 towards securing a Water License and Crown Land rights from Land and Water British Columbia, a crown corporation of the Government of British Columbia, have been completed for the three Hope Projects. Knight Piesold Ltd. has been conducting on going hydrological studies at Ruby, American and Emery Creeks. Initial desk top designs for the projects are for the construction of three projects with a combined installed capacity of about 30 megawatts (“MW”) and the potential to generate approximately 112 gigawatt hours per year (“GWh”). Results of a full year of onsite hydrological studies have indicated that American Creek may have less run off than original estimates and the future design requirements for this project will need to be reconsidered. Interconnection for the Hope Projects is constrained due to near capacity usage of the British Columbia Transmission Corporation (“BCTC”) system and Emery Creek,
2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equipment

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

Impairment of Assets

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

Income Taxes

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

Flow-Through Shares

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

Share-based Compensation

The Company issues options to purchase shares under the terms described in Note 7. When options to purchase shares are issued to employees or directors, the fair value of the options on the date of the grant is recognized as a compensation expense, with a corresponding increase in contributed surplus, over the period during which the related options vest. When options to purchase shares are issued to non-employees in return for goods or services, the fair value of the options issued is recognized as an expense, with a corresponding increase in contributed surplus, in the period in which the goods or services are received or are expected to be received.
2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based Compensation (continued)

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

Loss Per Share

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

Use of Estimates

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

3. CHANGES IN ACCOUNTING STANDARDS

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

4. POWER PROJECTS

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

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

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

The Green Power Corridor Phase I is located at the headwaters of the Toba Inlet on the East Toba River and Montrose Creek. Total installed capacity of these two facilities will be 170 MW with an expected annual energy generation of 601 GWh.

These project locations were chosen for the attributes necessary for successful, stable hydro-electric power production: high rainfall with large drainage basin areas resulting in high unit runoff and steep terrain resulting in high head flow with short penstock feed.

Interconnection of the two projects to the BC Transmission Corporation (BCTC) grid is planned for a location on the northeast side of Jervis Inlet where a new substation would be built at Saltery Bay. From this substation, a 230 kV transmission line would extend 145 km in a roughly northward direction to the top of Toba Inlet, then northeast to the proposed generating plants for the two projects. Transmission route studies have been completed and construction of the transmission line will be engineered to utilize, to the greatest extent possible, an extensive pre-existing network of logging roads covering the proposed corridor. Use of existing infrastructure will reduce construction costs while also keeping environmental impacts to a minimum.

Preliminary studies suggest that most of the transmission route can be completed using wooden poles.

The two facilities proposed on the East Toba River and Montrose Creek have the potential to produce enough electricity for over 60,000 homes and the ability to displace over 400,000 tonnes of greenhouse gases annually, equivalent to the emissions of approximately 80,000 cars per year.

A major project milestone was achieved when, in September 2004, the company was given a Section 10.1 order from the British Columbia Environmental Assessment Office which binds these projects to the Environmental Assessment process. A Project Application is expected to be filed in the third quarter of 2005.
Twelve project sites fall within an area that the Company has dubbed The Green Power Corridor. The area will be accessed through the construction of a 145 kilometer long 230 kV circuit transmission line running from Saltery Bay to the Montrose Creek and East Toba Projects. When built it will interconnect all twelve Green Power Corridor Projects and is expected to have a total installed capacity of 170 MW with the potential to generate approximately 600 gigawatt hours per year.

Completion of the Green Power Corridor would be one of the largest single private sector electrical generation investments made in British Columbia, creating over 2,160 job years of employment and launching the Province to the forefront of green energy generation in North America.

The Hope Projects consist of three facilities located near Hope B.C. on the west bank of the Fraser River, about 110 km east of Vancouver. The projects have an installed capacity of 30 MW and an expected annual energy generation of 112 GWh. These projects have the potential to produce electricity for over 11,000 homes and the ability to displace nearly 75,000 tonnes of greenhouse gases annually.

Europa Project
In April 2005, Plutonic Power announced that it successfully completed Stages 1 and 2 towards securing a Water License and Crown Land rights for the development of an 81 MW run-of-river project on Europa Creek, near Kemano. A unique feature of the project is that Europa Creek flows from a large, high altitude lake which will act as a water reservoir effectively adding a valuable capacity factor to the project. The project is expected to generate 280 GWh per year, enough energy to meet the needs for approximately 28,000 homes.

The Green Power Corridor
Twelve project sites fall within an area that the Company has dubbed The Green Power Corridor. The area will be accessed through the construction of a 145 kilometer long 230 kV circuit transmission line running from Saltery Bay to the Montrose Creek and East Toba Projects. When built it will interconnect all twelve Green Power Corridor Projects and is expected to have a total installed capacity of 720 MW, annually generating approximately 2,300 GWh of energy. This would provide enough electricity to meet the demands of over 230,000 homes, or a city approximately half the size of Vancouver.

Completion of the Green Power Corridor would be one of the largest single private sector electrical generation investments made in British Columbia, creating over 2,160 job years of employment and launching the Province to the forefront of green energy generation in North America.
Howe Sound Project (Rainy River)

The Rainy River Project is located on the western shore of Howe Sound, approximately 16 kilometers north of Gibson’s Landing. The project will divert flows from a high elevation intake on Rainy River into a 6km water conveyance system comprised of a low-pressure conduit and a 1.8 meter diameter penstock, which will lead to a surface powerhouse on the lower reach of the river.

The Rainy River Power Project has a design capacity of 20 megawatts and is expected to generate 72 Gigawatt hours of green energy per year, enough electricity to meet the needs of 7200 homes or fourteen 20-25 story office buildings. A third party contractor has estimated that capital costs for the project are approximately $32 million and, subject to financing and permitting, construction on the project is expected to commence in the first quarter of 2006. Construction will take approximately 18 months.

Rainy River presents a unique opportunity for Plutonic as a run-of-river hydroelectric development company. The pattern of seasonal run-off on Rainy River enables electricity to be generated predominantly from October to May. The value of this non-summer energy is deemed to be greater than that of energy generated in the summer.

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PLUTONIC POWER CORPORATION

Notes to Consolidated Financial Statements
December 31, 2004

7. SHARE CAPITAL (continued)

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

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

<table>
<thead>
<tr>
<th>Options</th>
<th>Number of Shares</th>
<th>Price Per Share</th>
<th>Expiry Date</th>
<th>Grant Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors</td>
<td>103,750</td>
<td>$0.20</td>
<td>31/08/99</td>
<td>31/08/99</td>
</tr>
<tr>
<td>Officers</td>
<td>7,500</td>
<td>$0.65</td>
<td>11/23/04</td>
<td>11/23/04</td>
</tr>
<tr>
<td>Employees</td>
<td>155,000</td>
<td>$0.32</td>
<td>5/17/04</td>
<td>5/17/04</td>
</tr>
<tr>
<td>Directors</td>
<td>120,000</td>
<td>$0.32</td>
<td>5/17/04</td>
<td>5/17/04</td>
</tr>
<tr>
<td>Officers</td>
<td>75,000</td>
<td>$0.75</td>
<td>11/23/04</td>
<td>11/23/04</td>
</tr>
<tr>
<td>Employees</td>
<td>370,000</td>
<td>$0.75</td>
<td>11/23/04</td>
<td>11/23/04</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Warrants</th>
<th>Price Per Share</th>
<th>Issue Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,270,000</td>
<td>$0.33</td>
<td>May 16, 2004</td>
</tr>
<tr>
<td>500,000</td>
<td>$1.60</td>
<td>December 23, 2004</td>
</tr>
<tr>
<td>1,092,000</td>
<td>$1.36</td>
<td>March 15, 2004</td>
</tr>
<tr>
<td>272,970</td>
<td>$1.25</td>
<td>December 23, 2004</td>
</tr>
</tbody>
</table>

PLUTONIC Power Corporation completed the acquisition of a British Columbian based private hydroelectric power development company in May of 2004. The transaction created a company with the potential to become one of the largest “green power” producers in British Columbia. It is this private sector facility the Provincial Government has mandated in their 2001 Energy Plan as the source of new electrical generation capacity to meet the future needs of British Columbians.

Significant progress was made in the permitting and design processes required to become an operating company during 2004 with accelerated activity in early 2005. Initiatives with local community groups and First Nations in all project areas met with participation and enthusiasm based on regional economic benefits and the low environmental impact of our projects.

Plutonic has secured projects to generate power from three drainage basins near Hope, and one in Howe Sound. The Company has also acquired three projects in Toha Inlet, nine projects in Bute Inlet. Collectively these projects are the Green Power Corridor (the “GPC”). In the first quarter of 2005 an additional project was acquired near Klimat.

The Howe Sound project, the most advanced, has a designed capacity of 20 megawatts (“MW”) with the potential to generate approximately 72 gigawatt hours per year (“GWh/yr”). The projects near Hope collectively have a combined designed capacity of approximately 30 MW and the potential to generate approximately 112 GWh/yr. The GPC Projects collectively will have a combined designed capacity of approximately 840 MW and the potential to generate approximately 2658 GWh/yr. While the Klimat project will have a designed capacity of about 81 MW and the potential to generate approximately 280 GWh/yr.

In October of 2004, Plutonic entered into a development and facilitation agreement with the Howe Sound Pulp and Paper LP for the Rainy River Project. Permitting, engineering and planning process are well advanced at Rainy River in preparation for the next BC Hydro energy call.

The Hope Projects, ranging in size from 8 to 16 MW of installed capacity, have been under development for the last three years. Hydrological, environmental and engineering design studies have been ongoing and no major operational limitations have been identified that would prevent Plutonic from submitting these Projects in the 2005 call for tender.

Another important milestone was achieved in September 2004 when Phase 1 of the GPC, the East Toba and Montrose Creek projects with a combined capacity of 170 MW were submitted into the Provincial Environmental Assessment Permitting Process. With the potential to produce approximately 600 GWh/yr of energy these projects will also be entered into BC Hydro’s 2005 call for tender.

Phase 1 of the GPC also includes the construction of a 14.5 km, 230 kV transmission line from the East Toba River Project to an interconnection point with the BC Transmission Corporation grid southwest of Powell River. Ultimately this new transmission line will deliver all the power generated by Plutonic’s GPC Projects to the BCTC grid.

The Europa Creek Project was developed after year end and is located near Kitimat. Europa has a design capacity of 81 MW and is expected to generate 280 GWh. A unique feature of the Europa Project is that Europa Creek flows from a large high altitude lake, which will act as a reservoir effectively adding a valuable capacity factor to the project.

A $2.3 million financing closed in December 2004 which should be sufficient to meet operating, permitting, engineering and design expenditures for 2005. In addition inclusion and candor in all aspects of project development with local governments and First Nations will be an important aspect of advancing all projects towards commissioning.

Plutonic has assembled an impressive portfolio of assets that will be the cornerstone of a long growth period in the future of building a green energy generation company. I look forward to successfully advancing the projects through the permitting process and successfully entering the next BC Hydro call for tender.

Letter to the Shareholders

On behalf of the Board of Directors:

Donald McInnes
President
**The British Columbia Energy Market**

- The BC Provincial Government has mandated that at least 50% of all new electricity supply must be from clean sources.
- The Government Energy Plan states that all new generation capacity will be provided by Independent Power Producers such as Plutonic Power.
- Presently, 34 independent power producers supply approximately 7000 GWh of electricity to the Province.
- BC Hydro expects electricity demand rates to grow at nearly 2% annually.
- Large scale infrastructure and industrial development will create further demands for additional generation facilities within B.C.
- The Province plans to phase-out of Burrard Thermal generating plant by 2014.
- According to current forecasts, the BC electricity system will fall in to energy deficit in fiscal 2011.
- In Fiscal 2004, BC Hydro imported over 5000 Gwh of electricity from Alberta and the United States, primarily from fossil fuel burning generation plants.

**Macroeconomic Factors**

- Projected 3% economic growth in British Columbia over the next five years.
- Continued high oil and natural gas prices increasing electricity prices across western North America.
- Implementation of the Kyoto protocol will require Canada to reduce up to 300 mega-tonnes of greenhouse gas emissions.
- Planned requirements for large industrial emitters to purchase Emission Reduction Credits from clean energy companies such as Plutonic Power.
- Volatile electricity prices in western United States, particularly California.
- The 2005 Federal Budget created a Renewable Energy subsidy to non-wind green power producers of $0.05 per kWh of electricity generation.
- Support by the Provincial government for renewable energy sources through tax incentives and accounting based concessions.
- Increasing public demand for green electricity.

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**PLUTONIC POWER CORPORATION**

**Notes to Consolidated Financial Statements**

December 31, 2004

<table>
<thead>
<tr>
<th>7. SHARE CAPITAL (continued)</th>
</tr>
</thead>
</table>

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

- Average risk-free interest rate: 2.5%
- Expected share price volatility: 630%
- Expected average period until exercise: 3 years
- Expected dividend yield: 0%

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

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share-based compensation</td>
<td>$187,745</td>
<td>$31,313</td>
</tr>
<tr>
<td>Contributed surplus</td>
<td>219,058</td>
<td>31,313</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share-based compensation expense</td>
<td>$40,038</td>
<td>$22,750</td>
</tr>
<tr>
<td>Net loss, pro forma</td>
<td>$40,038</td>
<td>$50,124</td>
</tr>
<tr>
<td>Deficit, pro forma</td>
<td>$348,740</td>
<td>$308,702</td>
</tr>
<tr>
<td>Loss per share, pro forma</td>
<td>$0.04</td>
<td>$0.04</td>
</tr>
</tbody>
</table>
What is Run of River Hydro?

Unlike traditional hydroelectric facilities, run-of-river projects do not require any damming of water. Instead, the water is diverted from a river and sent into a pipe called a penstock. The penstock feeds the water downhill to a generating station. The natural force of gravity creates the energy required to spin the turbines that in turn generate electricity. The electricity passes through power lines that are connected to the main electricity grid system. The water leaves the generating station and is spilled back into the river without altering the existing flow or water levels.

Plutonic Power’s run-of-river projects have been located on streams with natural waterfalls that act as barriers for fish, thus minimizing negative impacts on fish and wildlife habitat. Most of Plutonic’s projects are located well away from major recreation and residential areas. Project component specifications and construction methods on all projects are consistent with providing the least amount of environmental and visual impacts.

Pros of Run of River Hydroelectric Power Generation

**Environmental**
- Zero GHG (green house gas) emissions
- Displaces energy produced by fossil fuels
- Generates electricity from a renewable resource
- Presents a low visual impact
- Has a minimal impact on fish, vegetation, bird and wildlife habitat

**Economic**
- Provides reliable and consistent energy
- A non-depleting resource
- Not subject to fuel commodity risk
- Long facility life (>50 years)
- Low operating costs
- Serves high credit rating power purchasers
- Allows for long term contracts with purchasers
- Provides attractive rates of return

**Social**
- Creates economic activity in remote areas
- Joint venture and employment opportunities created for First Nations
- Generates tax revenue for local communities
- Creates construction and long term jobs
- Over 80% of materials sourced in Canada
- Reduces B.C.’s reliance on electricity imports
- Provides a reliable and long lasting electricity source

Vision

Plutonic Power Corporation is focused on a growth and development path to become the preeminent supplier of “green electricity” to British Columbia.

Mission Statement

Plutonic Power identifies and develops environmentally friendly and economically viable run-of-river power projects that will benefit all stakeholder groups and maximize shareholder value.
Highlights from 2004

The Company completed the purchase of a private British Columbia based independent power company named Plutonic Hydro Inc. (formerly 648795 BC Ltd.)

Plutonic submitted two of its run-of-river Green Power Corridor Projects into the Environmental Assessment Permitting Process (“EAO”). The submission to the EAO is for the construction of a 145 kilometer long transmission line and two run of river green hydroelectric projects; the 120 Megawatt (“MW”) East Toba River Project and the 50 MW Montrose Creek Project.

Plutonic Power Corporation successfully completed the preliminary stages to securing a Water License and Crown Land rights from Land and Water British Columbia, a crown corporation of the Government of British Columbia, for the development of a 20 MW run-of-river hydroelectric power generation project on Rainy River, near Sechelt, and for an 81 MW project on Europa Creek near Kitimat.

Plutonic entered into a development and facilitation agreement with Howe Sound Pulp and Paper Limited Partnership (“Howe Sound”), the owners and operators of a pulp and paper mill on Rainy River.

The company completed financing for gross proceeds of $2,341,600 in December 2004.

Goals and Objectives for 2005

Complete application permitting process under the British Columbia Environmental Assessment Agency for the East Toba and Montrose Creek Projects

Complete permitting for the Rainy River Project

Submit Rainy River, Europa, Emory and East Toba and Montrose Creeks into the Fall, 2005 BC Hydro call for tender process

Explore further hydro electric development opportunities in British Columbia

Further strengthen the management team and Board of Directors to ensure optimum development of all Plutonic resources
LIMITLESS

POTENTIAL

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www.plutonic.ca

Annual Report
2004

UNLIMITED
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