

# Tonbridge Power Inc.

## Consolidated Balance Sheets

	March 31, 2009 Unaudited	December 31, 2008 (Audited)
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 776,417	\$ 2,375,162
Receivables	48,677	61,973
Prepaid expenses	1,433,706	858,305
Deposits	<u>95,085</u>	<u>96,085</u>
	2,353,885	3,391,525
Property and equipment	67,589	76,142
Deposit on property and transmission assets	14,463,754	14,380,340
Deferred development costs (Note 3)	20,883,947	20,408,851
Intangible assets	<u>18,621,233</u>	<u>18,621,233</u>
	<u>\$ 56,390,408</u>	<u>\$ 56,878,091</u>
<b>Liabilities</b>		
Current		
Payables and accruals	\$ 4,687,352	\$ 4,043,943
Loans payable (Note 4)	30,468,452	28,897,556
Interest payable (Note 4)	5,974,855	4,345,567
Future income taxes (Note 5)	<u>4,461,943</u>	<u>4,359,572</u>
	<u>45,592,602</u>	<u>41,646,638</u>
<b>Shareholders' Equity</b>		
Share capital (Note 6b)	40,715,390	40,715,390
Contributed surplus (Note 6c)	6,590,913	6,562,273
Warrants (Note 6d)	430,095	430,095
Deficit	<u>(36,938,592)</u>	<u>(32,476,305)</u>
	<u>10,797,806</u>	<u>15,231,453</u>
	<u>\$ 56,390,408</u>	<u>\$ 56,878,091</u>

Nature of operations and going concern (Note 1)  
 Commitments and contingencies (Note 11)  
 Subsequent events (Note 12)

On behalf of the Board

“David Matheson” Director “Johan van’t Hof” Director

See accompanying notes to the consolidated financial statements.

**Tonbridge Power Inc.**  
**Consolidated Statements of Operations, Comprehensive  
Loss and Deficit**

Unaudited

	<b>Three Months Ended March 31, 2009</b>	<b>Three Months Ended March 31, 2008</b>
<b>Revenue</b>	\$ <u>1,746</u>	\$ <u>67,566</u>
<b>Expenses</b>		
General and administrative	583,488	448,680
Project costs expensed	-	472,371
Stock-based compensation	28,640	243,882
Management fees	267,679	240,000
Directors' fee	20,500	31,000
Financing costs	467,296	403,962
Interest expense	1,710,633	1,343,155
Foreign exchange loss	1,274,873	726,788
Amortization	8,553	19,544
	<u>4,361,662</u>	<u>3,929,382</u>
Loss before income taxes	(4,359,916)	(3,861,816)
Future income tax expense (Note 5)	<u>102,371</u>	<u>(19,455)</u>
Net loss being comprehensive loss	\$ <u>(4,462,287)</u>	\$ <u>(3,881,271)</u>
Deficit, beginning of period	\$ (32,476,305)	\$ (14,268,624)
Net loss	<u>(4,462,287)</u>	<u>(3,881,271)</u>
Deficit, end of period	\$ <u>(36,938,592)</u>	\$ <u>(18,149,895)</u>
<b>Net loss per common share:</b>		
Basic and diluted	\$ <u>(0.02)</u>	\$ <u>(0.02)</u>
<b>Weighted average number of common shares outstanding: Basic (Note 7)</b>	<u>255,796,316</u>	<u>235,640,946</u>

See accompanying notes to the consolidated financial statements.

# Tonbridge Power Inc.

## Consolidated Statements of Cash Flows

Unaudited

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
<b>Operating activities:</b>		
Net loss	\$ (4,462,287)	\$ (3,881,271)
Amortization	8,553	19,544
Financing costs	467,296	403,962
Stock based compensation	28,640	243,882
Directors' fees	-	31,000
Unrealized foreign exchange	1,229,929	716,400
Anchorage interest expense added to principal	1,502,959	691,259
Future income tax expense	<u>102,371</u>	<u>19,455</u>
	<b>(1,122,539)</b>	<b>(1,755,769)</b>
Change in non-cash operating working capital:		
Receivables	13,296	145,526
Prepaid expenses	(575,401)	(94,860)
Payables and accruals	<u>1,698</u>	<u>(451,688)</u>
	<b><u>(1,682,946)</u></b>	<b><u>(2,156,791)</u></b>
<b>Financing activities:</b>		
Advance from interest reserve for payment of interest costs	<u>-</u>	<u>400,391</u>
	<u>-</u>	<u>400,391</u>
<b>Investing activities:</b>		
Deposit on property and transmission assets	(83,414)	(215,872)
Purchase of property and equipment	-	(23,524)
Development costs incurred	(475,096)	(820,672)
Change in non-cash investing working capital	<u>642,711</u>	<u>(61,914)</u>
	<b><u>84,201</u></b>	<b><u>(1,121,982)</u></b>
Net change in cash and cash equivalents	<b>(1,598,745)</b>	<b>(2,878,382)</b>
Cash and cash equivalents, beginning of period	<u>2,375,162</u>	<u>9,144,068</u>
Cash and cash equivalents, end of period	<b>\$ <u>776,417</u></b>	<b>\$ <u>6,265,686</u></b>
Interest paid in cash	<b>\$ <u>-</u></b>	<b>\$ <u>249,534</u></b>

See accompanying notes to the consolidated financial statements.

# Tonbridge Power Inc.

## Notes to the Consolidated Financial Statements

Unaudited  
March 31, 2009

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### 1. Nature of operations and going concern

As of December 31, 2008, Tonbridge Power Inc.'s (the "Company") corporate structure includes the Company's 100% interests in Montana Alberta Tie US Holdings Inc., Lectrix Limited (name changed to Montana Alberta Holding Inc. on March 19, 2009), MATL LLP and 100% of the voting equity shares of Montana Alberta Tie Ltd. ("MATL").

The Company is in the development stage with revenues expected upon completion of the construction of a planned transmission line between Lethbridge, Alberta, Canada and Great Falls, Montana, U.S.A. Revenues are expected to be earned from transmission shipping rights agreements for use of transmission capacity. These contracts and revenues will not commence until, and are subject to a number of conditions precedent, including receipt of all regulatory permits and the completion of the construction of the transmission line.

The consolidated financial statements of the Company have been prepared by Management in accordance with Canadian generally accepted accounting principles applicable to a going concern which assumes that the Company will realize the carrying value of its assets and satisfy its obligations as they become due in the normal course of operations. For the period ended March 31, 2009, the Company has a negative cash flow from operating activities of \$1,682,946 (negative cashflow of \$2,156,791 for the period ended March 31, 2008). In addition, cashflow from investing activities for the period ended March 31, 2009 was \$84,201 (negative cashflow of \$1,121,982 for the period ended March 31, 2008). As of March 31, 2009, the Company had a negative working capital of \$2,333,467 (negative working capital of \$652,418 – December 31, 2008).

The Company is considering various alternatives to improve its working capital and to meet its future requirements. The Company may deem it necessary to raise capital through equity markets, debt markets or other innovative financing arrangements, including partnership or licensing arrangements that may be available for continued operations. The Company actively monitors its financing obligations, cash and cash equivalents to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost. Recently, global financial markets and economic conditions have been disrupted and volatile and the debt and equity capital markets have been distressed. These factors, together with the repricing of credit risk and the current weak economic conditions, have made, and will likely continue to make, it challenging to obtain cost effective funding. There is no assurance this capital will be available and if it is not, the Company may be forced to curtail or suspend activities. The ability of the Company to continue as a going concern depends on raising additional financing and once the project is operational, achieving and maintaining profitable operations sufficient to meet all obligations. Although in the opinion of Management, the use of the going concern assumption is appropriate, there can be no assurance that any steps Management is taking will be successful. The inability of the Company to continue to finance the project would impair the ability of the Company to advance the project in a timely manner and may result in a loss of the capitalized expenditures incurred to date.

These consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, and the balance sheet classifications that would be required if the going concern assumption were not appropriate. Such adjustments could be material.

Certain information and disclosure normally required to be included in the notes to the consolidated financial statements has been omitted and, as such, these interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto of the Company for the year ended December 31, 2008. The consolidated interim financial statements have been prepared following the same accounting policies and methods of computation as the audited consolidated financial statements for the year ended December 31, 2008 except as disclosed in Note 2.

# Tonbridge Power Inc.

## Notes to the Consolidated Financial Statements

Unaudited  
March 31, 2009

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### 2. Changes in accounting policy

Effective January 1, 2009, the Company adopted CICA Handbook Section 3064, Goodwill and Intangible Assets, which replaced the prior standards (Sections 3062 and 3450) for these areas. The new section establishes standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to initial recognition. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The implementation of this section had no impact on the Company's financial statements.

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### 3. Deferred development costs

	<u>March 31, 2009</u>	<u>December 31, 2008</u>
Balance, beginning of period	\$ 20,408,851	\$ 15,587,821
Development costs deferred	<u>475,096</u>	<u>4,821,030</u>
Balance, end of period	\$ <u>20,883,947</u>	\$ <u>20,408,851</u>

To date, no amortization has been taken on the deferred development costs as the project is not in commercial operation.

# Tonbridge Power Inc.

## Notes to the Consolidated Financial Statements

Unaudited  
March 31, 2009

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### 3. Deferred development costs (Continued)

During the period, the Company incurred expenses which do not qualify for deferral under Canadian generally accepted accounting principles, including costs related to maintenance of an office in Calgary and Montana, and head office costs in Toronto.

Development costs expensed during the period:

	<b>March 31, 2009</b>	March 31, 2008
Management fees	\$ 267,679	\$ 240,000
General and administrative	583,488	448,680
Project costs expensed – legal	-	472,371
Project costs expensed – other	-	-
Interest expense	1,710,633	1,343,155
Directors' fees	20,500	31,000
Stock based compensation	28,640	243,882
Foreign exchange loss	<u>1,274,873</u>	<u>726,788</u>
Total	\$ <u>3,885,813</u>	\$ <u>3,505,876</u>

Cumulative development costs expensed to date:

	<b>March 31, 2009</b>	March 31, 2008
Management fees	\$ 4,051,679	\$ 3,064,000
General and administrative	7,798,114	5,176,845
Project cost expense – legal	2,572,460	3,029,939
Project cost expense – other	303,346	-
Interest expense	10,392,105	4,463,736
Directors' fees	606,500	463,000
Stock based compensation	1,648,381	1,471,138
Foreign exchange loss	<u>6,322,326</u>	<u>842,511</u>
Total	\$ <u>33,694,911</u>	\$ <u>18,511,169</u>

## Tonbridge Power Inc.

### Notes to the Consolidated Financial Statements

Unaudited

March 31, 2009

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#### 4. Loans payable

- (i) Loan payable Anchorage: USD loan stated in Canadian dollars

	<b>March 31, 2009</b>	December 31, 2008
Loan payable, beginning of period	\$ 28,897,556	\$ 11,285,953
Loan advances	-	16,401,190
Financing cost deferred	-	(3,764,741)
Deferred financing costs expensed	467,296	1,199,544
Foreign exchange adjustment	<u>1,103,600</u>	<u>3,775,610</u>
Loans payable	<b><u>\$ 30,468,452</u></b>	<b><u>\$ 28,897,556</u></b>

On October 5, 2007, a US\$31 million debt facility was executed with Anchorage Capital Master Offshore III, Ltd. ("Anchorage"). Under the terms of the facility, the first tranche in the amount of US\$18 million of gross proceeds was advanced on closing for project use and general corporate purposes. The second tranche of the facility in the amount of US\$13 million was advanced on November 21, 2008 after the remaining permits for the MATL Project were obtained and was used to repay MATL's existing development loan facility with HSH NordBank. Both tranches of the facility have a fixed interest rate (described in Note 4 ii) and are for a term of five years from the date of advance, subject to certain prepayment provisions and are intended as permanent capital through to start of commercial operations.

In conjunction with the first tranche of the financing of US\$18 million, the Company issued 30,000,000 common shares to Anchorage. In addition, a non-transferable special warrant to acquire an additional 20,000,000 common shares at no additional cost was exercised on November 21, 2008 in conjunction with the advance of the second tranche of the debt facility. Such shares were issued and were subject to a four month resale restriction which expired in April 2009.

In 2007, Tonbridge Corporation, advisor to the Company and a related party earned a fee of \$500,000 on closing of the facility. In addition, Tonbridge Corporation has been granted non-transferable share purchase warrants to acquire up to 2,941,176 common shares at an exercise price of \$0.17 per share for a period of 24 months. Of these warrants, 2,182,870 became exercisable on February 6, 2008, and 758,306 warrants after the advance of the second tranche of the Anchorage credit facility on November 21, 2008. The common shares issuable on exercise of the purchase warrants are subject to a four month hold period.

# Tonbridge Power Inc.

## Notes to the Consolidated Financial Statements

Unaudited  
March 31, 2009

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#### 4. Loans payable (Continued)

##### (i) Loan payable – Anchorage (Continued):

Finance costs in the amount of \$6,766,203 were incurred in conjunction with the close of the first tranche and \$3,764,741 in conjunction with the close of the second tranche. These finance costs include legal costs, fees and warrants for Tonbridge Corporation and the estimated fair value of the shares issued to Anchorage. The shares issued to Anchorage were valued at the average 20 day closing market price, on the day prior to October 4, 2007 and the second tranche on November 21, 2008, less a 25% discount estimated by management. The effective rate of borrowing for this facility including the value of shares issued is 23.7%.

Security provided with the loan facility includes intercompany guarantees and a general security agreement over the assets of the Company, Montana Alberta Tie Ltd, MATL US Holdings Inc., Lectrix Ltd.(name changed to Montana Alberta Holding Inc. on March 19, 2009) and MATL LLP.

##### (ii) Interest payable - Anchorage

The loan payable to Anchorage bears a fixed interest at the rate of 13.25% per annum, with an option in favour of the Company to accrue and add the amount of the interest payments to the principal amount of the loans at an additional cost of 75 basis points until maturity. The Company intends to accrue interest payments until the commencement of commercial operations.

	<b>March 31, 2009</b>	December 31, 2008
Interest payable, beginning of period	\$ 4,345,567	\$ 593,510
Interest expensed	1,502,959	3,229,196
Foreign exchange adjustment	<u>126,329</u>	<u>522,861</u>
Interest payable, end of period	\$ <u>5,974,855</u>	\$ <u>4,345,567</u>

# Tonbridge Power Inc.

## Notes to the Consolidated Financial Statements

Unaudited  
March 31, 2009

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### 5. Future income taxes

#### a) Rate reconciliation

The income tax expense differs from the amounts which would be obtained by applying the expected income tax rate of 29.00% (2008 – 29.50%) as follows:

	<b>March 31, 2009</b>	March 31, 2008
Computed "expected" tax recovery	\$ (1,264,375)	\$ (1,240,601)
Stock-based compensation	8,306	78,335
Non-deductible portion of unrealized foreign exchange loss	178,340	-
Change in valuation allowance	1,029,907	921,599
Other	1,787	3,176
Effect of changes in tax rates	<u>148,406</u>	<u>256,946</u>
Future income tax	\$ <u>102,371</u>	\$ <u>19,455</u>

#### b) The components of the Company's future income tax balance include a future income tax estimate in the calculation of the acquisition of the 35% interest in MATL and are as follows:

	<b>March 31, 2009</b>	December 31, 2008
Future income taxes from:		
Non-capital losses carried forward	\$ 13,404,261	\$ 12,446,791
Unrealized foreign exchange loss on loans payables	691,050	537,309
Share issuance costs	256,838	297,632
Intangible asset	1,027	1,045
Development costs	(5,220,987)	(5,102,213)
Intangible asset, Acquisition of MATL	(4,655,308)	(4,655,308)
Deferred financing costs	52,266	74,746
Property and equipment	3,773	5,381
Valuation allowance	<u>(8,994,863)</u>	<u>(7,964,955)</u>
Future income taxes	\$ <u>(4,461,943)</u>	\$ <u>(4,359,572)</u>

Under the recommendations of the CICA handbook, the Company is required to increase the carrying value of any asset when its tax base is less than its acquisition cost, as in the case with the intangible asset acquired in the MATL acquisition. As a result, the estimated balance of future income taxes represents a net accounting entry derived from the lack of any tax deductibility of the cost of the intangible assets. This cost will be amortized for accounting purposes but not for tax purposes. Accordingly, the future income taxes represent an undiscounted estimate of the tax effect of this difference, and therefore it is not payable at the present.

# Tonbridge Power Inc.

## Notes to the Consolidated Financial Statements

Unaudited  
March 31, 2009

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### 5. Future income taxes (Continued)

For income tax purposes, the Company has approximately \$53.6 million in non-capital losses which may be used to reduce future taxable income. These losses expire as follows:

2010	\$ 26,528
2014	53,813
2015	5,039,805
2026	12,412,069
2027	14,579,561
2028	17,675,388
2029	<u>3,829,880</u>
	\$ <u>53,617,044</u>

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### 6. Share capital

a) **Authorized** Unlimited number of common shares

b) **Issued and outstanding common shares**

	March 31, 2009		December 31, 2008	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of period	<b>255,796,316</b>	<b>\$ 40,715,390</b>	235,459,682	\$ 37,737,390
Shares for payments of directors' fee	-	-	336,634	68,000
Anchorage financing (i)	-	-	20,000,000	2,910,000
Options and warrants exercised	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance, end of period	<b><u>255,796,316</u></b>	<b><u>\$ 40,715,390</u></b>	<b><u>255,796,316</u></b>	<b><u>\$ 40,715,390</u></b>

(i) Anchorage financing

On October 5, 2007, the Company entered into a credit agreement with Anchorage, whereby Anchorage agreed to provide a credit facility of US\$31,000,000, consisting of a first tranche commitment of US\$18,000,000 and second tranche of US\$13,000,000. As part of the credit agreement, Anchorage received fees in the form of 30,000,000 common shares with the first advance of US\$18M on October 5, 2007 and an additional 20,000,000 common shares on November 21, 2008 with the advance of the second tranche of US\$13M. The issuances of common shares were fair valued as disclosed in Note 6d(ii).

## Tonbridge Power Inc.

### Notes to the Consolidated Financial Statements

Unaudited

March 31, 2009

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#### 6. Share capital (Continued)

##### c) Contributed surplus

At March 31, 2009, a total of \$28,640 (March 31, 2008 - \$243,822) in stock-based compensation cost was recognized during the period, which related to compensation options to directors, officers and consultants. The following table summarizes the reconciliation of contributed surplus with respect to stock based compensation amounts:

	<u>March 31, 2009</u>	<u>December 31, 2008</u>
Balance, beginning of period	\$ 6,562,273	\$ 4,217,672
Estimated fair value of stock based compensation	28,640	392,485
Warrants expired	<u>-</u>	<u>1,952,116</u>
Balance, end of period	\$ <u>6,590,913</u>	\$ <u>6,562,273</u>

##### d) Warrants

	March 31, 2009		December 31, 2008	
	Number of Warrants	Amount	Number of Warrants	Amount
Balance, beginning of period	2,941,176	\$ 430,095	17,182,870	\$ 2,313,987
(i) Warrants issued (expired) to HSH NordBank	-	-	(15,000,000)	(1,952,116)
(ii) Warrants issued in connection with Anchorage financing	<u>-</u>	<u>-</u>	<u>758,306</u>	<u>68,224</u>
Balance, end of period	<u>2,941,176</u>	\$ <u>430,095</u>	<u>2,941,176</u>	\$ <u>430,095</u>

## Tonbridge Power Inc.

### Notes to the Consolidated Financial Statements

Unaudited

March 31, 2009

#### 6. Share capital (Continued)

##### d) Warrants (Continued)

(i) On December 27, 2006, the Company closed a development loan with HSH NordBank, and a first tranche of \$9,000,000 was made available for project development costs. In connection with this initial funding, 10,384,615 warrants were issued entitling HSH NordBank to purchase one common share at \$0.36. These warrants were not exercised and expired on June 27, 2008.

On May 2, 2007, the Company closed Tranche B of the development loan with HSH NordBank, and \$4,000,000 was made available for project development costs. In connection with this funding, an additional 4,615,385 warrants became exercisable, entitling HSH NordBank to purchase one common share at \$0.39. These warrants were not exercised and expired on December 27, 2008.

(ii) On October 5, 2007, the Company entered into a credit agreement with Anchorage, whereby Anchorage agreed to provide a credit facility of US\$31,000,000, and a first tranche of US\$18,000,000 was advanced. In connection with this advance of funds, Anchorage received 30,000,000 free common shares (See Note 4i), and Tonbridge Corporation was granted 2,182,870 non-transferable share purchase warrants to acquire common shares at an exercise price of \$0.17 per share for a period of 24 months. Common shares issued on exercise of the purchase warrants are subject to a four month hold period.

On November 21, 2008, Anchorage advanced the second tranche of US\$13,000,000 in accordance with the credit agreement of October 5, 2007. In connection with this advance of funds, Anchorage received an additional 20,000,000 common shares and Tonbridge Corporation was granted a further 758,306 non-transferable share purchase warrants to acquire common shares at an exercise price of \$0.17 per share expiring on October 6, 2009.

	March 31, 2009			December 31, 2008	
	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (years)</u>	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>
Warrants outstanding, beginning of period	2,941,176	\$ 0.17	.76	17,182,870	\$ 0.34
Granted	-	-	-	758,306	\$ 0.17
Expired	-	-	-	(15,000,000)	\$ 0.37
Warrants outstanding, end of period	<u>2,941,176</u>	<u>\$ 0.17</u>	<u>.52</u>	<u>2,941,176</u>	<u>\$ 0.17</u>
Warrants exercisable, end of period	<u>2,941,176</u>	<u>\$ 0.17</u>	<u>.52</u>	<u>2,941,176</u>	<u>\$ 0.17</u>

# Tonbridge Power Inc.

## Notes to the Consolidated Financial Statements

Unaudited  
March 31, 2009

### 6. Share capital (Continued)

#### d) Warrants (Continued)

	October 5, 2007	November 21, 2008
Number of warrants issued	2,182,870	758,306
Weighted average fair market value of warrants granted	\$ 0.17	\$ 0.09
The following assumptions were used:		
Risk free interest	4.22%	2.00%
Estimated hold period prior to exercise – years	2.0	0.87
Volatility in the price of the Company's shares	110.5%	161.3%
Dividend yield rate	Nil	Nil
Stock price	\$ 0.25	\$ 0.17
Expiry Date	October 6, 2009	October 6, 2009

#### e) Stock options

The Company grants options to its directors, officers, employees and consultants under a plan which provides for up to 10% of the outstanding common shares for issuance to eligible participants. At March 31, 2009, 25,579,632 common shares were reserved for this purpose (25,579,632 for the year ended December 31, 2008). From this reserve, there were 7,665,949 incentive options outstanding (7,875,949 for the year ended December 31, 2008). The exercise price of each option approximates the market price of the Company's common shares on the date of the grant. Options expire five years after the date of grant and depending on the grant, options vest over a period of up to one year.

Options outstanding include both incentive options and agents' options which were issued for services rendered in the completion of equity financings. The following table summarizes the information relating to options:

	March 31, 2009		December 31, 2008	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	7,875,949	\$ 0.239	7,324,949	\$ 0.254
Granted	-	\$ -	2,166,000	\$ 0.240
Forfeited	-	\$ -	(65,000)	\$ 0.267
Expired	(210,000)	\$ 0.330	(1,550,000)	\$ 0.314
Exercised	-	\$ -	-	\$ -
Total options outstanding, end of period	<u>7,665,949</u>	<u>\$ 0.236</u>	<u>7,875,949</u>	<u>\$ 0.239</u>
Total options exercisable, end of period	<u>7,610,949</u>	<u>\$ 0.236</u>	<u>7,695,949</u>	<u>\$ 0.237</u>

## Tonbridge Power Inc.

### Notes to the Consolidated Financial Statements

Unaudited

March 31, 2009

#### 6. Share capital (Continued)

##### e) Stock options (Continued)

The range of exercise prices of stock options outstanding and exercisable at March 31, 2009 are as follows:

Range of Exercise Prices	Outstanding Options			Exercisable Options		
	Number of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Options Outstanding	Weighted Average Exercise Price	
\$ 0.175	3,284,949	1.25	\$ 0.175	3,284,949	\$ 0.175	
\$ 0.222	1,545,000	3.80	\$ 0.222	1,545,000	\$ 0.222	
\$ 0.250	800,000	1.30	\$ 0.250	800,000	\$ 0.250	
\$ 0.280	140,000	4.45	\$ 0.280	140,000	\$ 0.280	
\$ 0.316	306,000	4.03	\$ 0.316	251,000	\$ 0.316	
\$ 0.330	890,000	2.75	\$ 0.330	890,000	\$ 0.330	
\$ 0.370	500,000	1.50	\$ 0.370	500,000	\$ 0.370	
\$ 0.390	200,000	1.85	\$ 0.390	200,000	\$ 0.390	
	<u>7,665,949</u>	<u>2.14</u>	<u>\$ 0.236</u>	<u>7,610,949</u>	<u>\$ 0.236</u>	

The fair value of each option granted was estimated on the date of grant using the Black Scholes option pricing model:

	<u>March 31, 2009</u>	December 31, 2008
Number of options issued:	-	2,166,000
Weighted average fair market value of options granted	-	\$0.205
The following weighted average assumptions were used:		
Risk free interest rate	-	3.22%
Estimated hold period prior to exercise – years		
Incentive Options	-	5.00
Agents' Options	-	-
Volatility in the price of the Company's shares	-	127.80%
Dividend yield rate	-	Nil

There were no options granted between January 1, 2009 and March 31, 2009.

# Tonbridge Power Inc.

## Notes to the Consolidated Financial Statements

Unaudited  
March 31, 2009

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### 7. Weighted average share amounts

Basic net loss per common share is computed by dividing the net loss by the weighted average number of common shares outstanding for the year. Loss per share on a diluted weighted average basis is the same as that presented for basic as all factors are anti dilutive.

	<u>March 31,</u> <u>2009</u>	<u>March 31,</u> <u>2008</u>
Weighted average number of shares outstanding:		
Basic	<u>255,796,316</u>	<u>235,640,946</u>

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### 8. Related party transactions

During the period ended March 31, 2009, the Company paid \$240,000 (March 31, 2008 - \$240,000) in management fees to Tonbridge Corporation for executive management and officers' services pursuant to a management contract. The Company has not paid any fees in respect of the advisory contract with Tonbridge Corporation during the first three months of either 2009 or 2008.

On January 1, 2009, the Company entered into a contract with HHART, LLC, whereby John Etchart, a Director of the Board, will act as an Executive Vice President of Public Affairs for the Company on a half time basis. During the period ended March 31, 2009, the Company incurred \$27,679 (March 31, 2008 - \$Nil) with respect to this contract.

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### 9. Financial instruments and financial risk management

All financial instruments have been classified into one of the following five categories:

	<u>March 31, 2009</u>	<u>December 31, 2008</u>
Held to maturity	\$ -	\$ -
Loans and receivables	\$ 48,677	\$ 61,973
Other financial liabilities	\$ 41,130,659	\$ 37,287,066
Available for sale	\$ -	\$ -
Held for trading	\$ 776,417	\$ 2,375,162

The Company's financial instruments include cash and cash equivalents, receivables, payable and accruals, loans payable and interest payable. With the exception of loans payable and interest payable, the carrying value of these financial instruments approximate their fair values due to their relatively short periods to maturity. Given the private nature of the Anchorage transaction (see Note 4), management has concluded that the book value of loans payable and interest payable given the effective rate of 23.7% is reflective of the current market value for loans payable and interest payable as at March 31, 2009 and December 31, 2008.

## Tonbridge Power Inc.

### Notes to the Consolidated Financial Statements

Unaudited

March 31, 2009

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#### 9. Financial instruments and financial risk management (Continued)

The Company's activities expose it to a variety of financial risks. In the management of financial risks, the Company's primary focus is to obtain prudent financing at appropriate intervals, matching cost, duration and interest rate exposure of such financing with returns available from the investment made in projects with such proceeds.

##### i. Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to settle its liabilities when due without incurring unacceptable losses or risking harm to the Company.

The following contractual maturities of financial liabilities and other commitments as at March 31, 2009:

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Payables and accruals	4,687,352	-	-	-	-
Commitments	156,549	209,336	31,352	-	-
Loans and interest payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,041,055</u>
	<u>4,843,901</u>	<u>209,336</u>	<u>31,352</u>	<u>-</u>	<u>45,041,055</u>

Management believes the Company currently has sufficient funding and commitments to manage operating costs until its expected Notice to Proceed date ("NTP"). The current MATL Project in development is dependent on the timing of the decision on the Alberta Energy Utilities Board permit and the ability to finalize senior financing. Significant delays could affect the Company's the cost of obtaining further development capital.

The Company's requirements for capital in the foreseeable future include construction financing and operating expenses until such time that the Company has an operating asset generating sufficient cash flow to meet all obligations. The Company is working to cover these requirements through a combination of financing instruments.

##### ii. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to changes in interest rates as a result of the fixed interest rate on the loan payable to Anchorage (see note 4 ii).

# Tonbridge Power Inc.

## Notes to the Consolidated Financial Statements

Unaudited  
March 31, 2009

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### 9. Financial instruments and financial risk management (Continued)

#### iii. Foreign exchange risk

The Company is exposed to changes in the foreign exchange rates between the Canadian and U.S. dollar as a result of the loan payable to Anchorage. Principal and interest totalling of \$35,741,196 is payable in U.S. dollars as at March 31, 2009. The Canadian equivalent reflected on the balance sheet totals \$45,041,055 at an exchange rate of 1.2602.

Loans payable	\$30,468,452
Interest payable	5,974,855
Financing costs to be amortized over the remaining life of the loan payable	<u>8,597,748</u>
Balance owing March 31, 2009	
Canadian dollars	<u>\$45,041,055</u>

Future income could be affected by the impact of changes in the USD exchange rate as follows:

<u>Loan in US dollars</u>	<u>Exchange rate</u>	Potential Owing in Canadian dollars	Owing at March 31, 2009 in Canadian dollars	Potential gain or (loss) before tax
\$35,741,196	1.1000	\$39,315,316	\$45,041,055	5,725,739
\$35,741,196	1.1500	\$41,102,375	\$45,041,055	3,938,680
\$35,741,196	1.2000	\$42,889,435	\$45,041,055	2,151,620
\$35,741,196	1.2500	\$44,676,495	\$45,041,055	364,560
\$35,741,196	1.3000	\$46,463,555	\$45,041,055	(1,422,500)
\$35,741,196	1.3500	\$48,250,615	\$45,041,055	(3,209,560)

The Company has elected not to hedge its foreign exchange risk during the development stage of the current Project.

#### iv. Credit risk

Credit risk is primarily related to the Company's receivables from its transmission service rights agreements and the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Prior to commercial operations of the Montana Alberta Tie Ltd. transmission line, there are no receivables due from these contracts and thus the Company is not exposed to significant credit risks. The Company grants credit and manages customer relations in accordance with a Federal Energy Regulatory Commission approved credit and remedy process.

The Company limits exposure to credit risk on liquid financial assets through maintaining its cash and equivalents with a reputable financial institution.

## Tonbridge Power Inc.

### Notes to the Consolidated Financial Statements

Unaudited

March 31, 2009

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#### 10. Capital risk management

The Company defines capital as cash and cash equivalents during the development stage and cash and cash equivalents, sourced through equity and debt, during the construction and operations phase. The Company's objectives when managing capital are:

- Managing risks of time delays and unexpected costs against the risk of obtaining too much capital which is very costly in the early stages of project development;
- Funds raised for the purpose of project development are to be held in low risk, bank term deposits;
- Manage expenditures to meet contractual covenants, which are imposed by regulators in the form of permit compliance and financing and debt agreements;
- That expected future revenues of a project will support the development of the project;
- To match the appropriate financing vehicle to the various stages of the development of the project;
- To reach a point where cashflows from operational assets can support additional prudent project development or where dividend payments can be made to shareholders; and
- To safeguard the entity's ability to continue as a going concern so that it can meet its obligations as they fall due as well as take advantage of opportunities as they arise, and ultimately to provide a risk adjusted fair return on investment to its shareholders.

The Company's strategy in the management of capital is dependent on the stage of the development of the Project:

- Prior to NTP – To raise sufficient capital at fair cost, to support the development of the Project until the Company is able to issue a NTP. This stage involves assessing the risks of time delays, projecting the costs of regulatory processes and manage the expectations of shareholders in terms of share dilution and expected returns for the risk they have undertaken. The Company must also consider whether certain costs should be incurred in advance of NTP in order to facilitate an earlier in-service date or whether cash should be conserved in order to manage risks around any uncertainty of an NTP date. As uncertainty around the NTP date is reduced, capital is available at a reduced cost to the Company;
- From NTP through to the completion of construction – To manage significant cost outlays, to manage risks around potential cost overruns when compared to the additional costs for third parties to undertake certain risks, to meet expectations set by financiers; and
- Operations - To manage cash flows from operational projects such that prudent investment in future opportunities is compared to return to shareholders.

In order to facilitate the arrangement of its capital requirements, the Company prepares operating and capital budgets that are updated as necessary depending on various factors. In order to maintain and maximize the project development, the Company does not pay out dividends. The Company's loan facilities contain general security restrictions over cash and cash equivalents and have debt covenants. The Company is in compliance with its debt covenants at March 31, 2009.

As at March 31, 2009, the Company remains in the development stage of the Project and is managing its capital in accordance with the above strategy.

# Tonbridge Power Inc.

## Notes to the Consolidated Financial Statements

Unaudited  
March 31, 2009

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### 11. Commitments and contingencies

- a) The Company maintains an office in Calgary, Alberta and another office located in Helena, Montana. Lease commitments for the next three years are as follows:

2009	\$	156,549
2010		209,336
2011		<u>31,352</u>
	\$	<u>397,237</u>

- b) Pursuant to Letter of Agreement ("Agreement") regarding the Issuance of a Letter of Credit for MATL and the Company dated November 3, 2006, as amended on December 14, 2006, SOF Investments, L.P. ("SOF"), agreed to arrange for a letter of credit from the Royal Bank of Canada (the "Bank") to be issued in favour of AltaLink, LP as beneficiary, to complete the requirements for filing the Facilities Application with the Alberta Energy Utilities Board, in the amount of \$9,200,000. SOF is an unrelated private investment limited partnership and AltaLink is an unrelated party who owns and operates transmission lines in Alberta.

Under the Agreement, the Company agreed to pay SOF (a) the amount of any drawings on the letter of credit, payable on the day SOF is obligated to reimburse the Bank for any such drawings; (b) interest on the amounts described in (a) at the rate of 17.5% per annum, calculated daily from the day such amounts are payable to SOF until paid in full, payable on demand; and (c) interest on any undrawn portion of the face amount at a rate of 9.0% per annum calculated monthly and payable in arrears on the last day of each month so long as the letter of credit is outstanding.

- c) The Company, through MATL, signed a commitment letter on December 4, 2008, with a detailed term sheet for proposed syndicated credit facilities with the New York Branch of HSH NordBank AG for a construction and term loan facility of up to US \$99 million to fund the construction and operation of the Project in two tranches, one for US \$90M for construction of the Transmission Line and the second for US \$9M for the refundable interconnection with the NWE Great Falls substation.

The NordBank Construction Financing will require a first security interest over all the present and future assets of MATL and each subsidiary of MATL and a specific pledge of the Company's ownership in MATL. Security interests relating to the NaturEner Prepayment (see Note 11 d below) would be subordinate to these security interests. In conjunction with the finalization of definitive documentation and closing of the NordBank Construction Financing and to align interests with the bank, the Company intends to issue share purchase warrants to NordBank to acquire Common Shares. The warrants to be issued will be subject to TSX-V policies and their issuance will require TSX-V approval.

Drawings on the NordBank Construction Financing and the NaturEner Prepayment will be made rateably and proportionately and will be available after closing and once all conditions precedent are satisfied. These conditions precedent include receipt of all final permits, entering into definitive loan documents, execution of all material contracts, receipt of satisfactory reports of an independent engineer and of market consultants, completion of satisfactory due diligence, acceptance of base case economic models, finalizing and entering into credit support arrangements, approval of qualified off-takers and finalizing TSR agreements.

Under this approach, NordBank will act as mandated lead arranger and bookrunner, syndication agent, administrative agent, derivatives provider, technical and documentation agent and as a lender for the NordBank Construction Financing.

## Tonbridge Power Inc.

### Notes to the Consolidated Financial Statements

Unaudited

March 31, 2009

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#### 11. Commitments and contingencies (Continued)

- d) The Company has entered into a letter of intent with its northbound customer, NaturEner USA, LLC, whereby NaturEner will prepay approximately US\$35,000,000 upon the closing of its Construction Financing (see Note 11 c), which will be offset by a reduction of approximately 35% of revenues owing to the Company from years 11 to 25 of its transmission rights agreement.
- e) The Company signed a letter of intent dated November 26, 2008 with its northbound generation customer, NaturEner, whereby NaturEner will invest up to US\$25 million in Series A Preferred Shares of the Company's subsidiary, MATL, at US\$1 per share ("Preferred Share Financing"). This additional financing is subject to, among other things, the negotiation and closing of definitive agreements, regulatory and shareholder approval. The closing of the first tranche of the Preferred Share Financing, of US\$6 million, is expected to occur in the second quarter of 2009. An additional US\$7 million would be due at such time as all permits are beyond appeals. Further tranches for the balance of the aggregate proceeds would be payable no later than the closing of a construction financing.

Dividends are payable at the rate of 15% of the shares' subscription price per share per annum, and are cumulative if unpaid. Payment of dividends may be deferred, but will accrue and be cumulative prior to the commercial operation date of the Project ("COD"). Prior to COD dividends may be paid in kind with the issuance of additional Preferred Shares at the 15% rate. The Preferred Shares are redeemable in various events, at the option of the Company.

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#### 12. Subsequent event

- a) On April 24, 2009 the Company signed an extension of the letters of intent described in Notes 11d and e above. The closing of these financing arrangements or of an alternative financing is a requirement to meet current and future obligations through to the end of construction (See Note 1).
- b) On May 19, 2009, the Company announced that it had accepted an offer from Clarus Securities Inc. to purchase and sell common shares of the Company to the public for gross proceeds of \$5,002,500 plus a 15% over-allotment option. The Company will use the net proceeds of the offering for working capital and for general corporate purposes.