

Grant Thornton LLP
Chartered Accountants
Management Consultants

AUDITORS' REPORT

To the Shareholders of
Tonbridge Power Inc.

We have audited the consolidated balance sheet of **Tonbridge Power Inc.** as at December 31, 2005 and the consolidated statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 disclosures 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 statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Calgary, Alberta
March 23, 2006

Chartered Accountants

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Tonbridge Power Inc.

Consolidated Balance Sheet

Audited
December 31, 2005

Assets

Current

Cash and cash equivalents	\$	1,810,190
Receivables		286,785
Prepaid expenses		75,545
Deposits		<u>615,340</u>
		2,787,860

Capital assets (Note 5)		77,297
Deposit on property and equipment (Note 10)		548,010
Deferred development costs (Note 6)		<u>3,186,213</u>
	\$	<u>6,599,380</u>

Liabilities

Current

Payables and accruals	\$	973,567
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Non-controlling interest		<u>-</u>
		<u>973,567</u>

Shareholders' Equity

Share capital (Note 7b)		7,138,654
Contributed surplus (Note 7d)		624,323
Deficit		<u>(2,137,164)</u>
		<u>5,625,813</u>
	\$	<u>6,599,380</u>

Commitments and contingencies (Note 10)

Subsequent events (Note 12)

On behalf of the Board

(Signed) "David I. Matheson" Director (Signed) "Johan C. van't Hof" Director

See accompanying notes to the consolidated financial statements.

Tonbridge Power Inc.
Consolidated Statement of Operations and Deficit

Audited
Eleven months ended December 31, 2005

Interest income	\$ <u>58,861</u>
Expenses	
Management	875,000
General and administrative	914,674
Amortization	13,043
Directors fees	71,083
Stock-based compensation	<u>322,225</u>
	<u>2,196,025</u>
Loss before non-controlling interest	(2,137,164)
Non-controlling interest	<u>-</u>
Net loss, being deficit, end of year	\$ <u>(2,137,164)</u>
<hr/>	
Net loss per common share:	
Basic and diluted	\$ <u>(0.02)</u>
Weighted average number of common shares outstanding:	
Basic (Note 8)	<u>103,474,979</u>

See accompanying notes to the consolidated financial statements.

Tonbridge Power Inc.

Consolidated Statement of Cash Flows

Audited

Eleven months ended December 31, 2005

Operating activities	
Net loss	\$ (2,137,164)
Amortization	13,043
Stock-based compensation	322,225
Non-controlling interest	<u>-</u>
	(1,801,896)
Change in non-cash operating working capital	
Receivables	(272,957)
Deposits	(615,340)
Prepaid expenses	(75,545)
Payables and accruals	<u>699,392</u>
	<u>(2,066,346)</u>
Financing activities	
Issuance of share capital, net of costs	<u>6,879,773</u>
Investing activities	
Purchase of property and equipment	(90,340)
Deposit on property and equipment	(548,010)
Deferred development costs incurred	(2,820,347)
Cash acquired on acquisition of JJR (Note 3)	531,515
Corporate acquisition (Note 4)	(76,683)
Cash acquired on acquisition (Note 4)	<u>628</u>
	<u>(3,003,237)</u>
Net increase, being cash and cash equivalents, end of year	\$ <u>1,810,190</u>

See accompanying notes to the consolidated financial statements.

Tonbridge Power Inc.

Notes to the Consolidated Financial Statements

Audited
December 30, 2005

1. Nature of operations

JJR Capital Ventures Inc., ("JJR") was incorporated under the Business Corporation Act (Ontario) on October 1, 2003 and was classified as a Capital Pool Corporation as defined in the Policy 2.4 of the TSX Venture exchange (the "Exchange"). At inception, JJR proposed to identify and evaluate potential acquisitions of businesses, and once identified and evaluated, to negotiate an acquisition or participation subject to receipt of regulatory and shareholder approval.

Tonbridge Power Corporation ("TPC") was incorporated on January 28, 2005 under the Business Corporations Act (Ontario). On February 7, 2005, Tonbridge subscribed for 65% of the voting equity shares of Montana Alberta Tie Ltd. ("MATL"), a Canadian corporation, for \$1,100,000. MATL is a project development company involved in the development of a transmission line between Alberta and Montana. On May 30, 2005, TPC completed a private placement of 34,285,714 subscription receipts for gross cash proceeds of \$6,000,000.

The Company is in the development stage with revenues expected upon completion of the construction of the transmission line in 2007, which would only occur when fully permitted. 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 the completion of the construction of the transmission line and receipt of all regulatory permits. The inability of the Company to continue to fund the project would impair the ability of the Company to advance the project and may result in a loss of the investment incurred to date.

On June 29, 2005, JJR issued 78,333,332 shares for the acquisition of TPC. As a result of this transaction step, the shareholders of TPC held approximately 89% of the issued and outstanding common shares of JJR. The transaction is referred to as a reverse takeover, and for accounting purposes, TPC is deemed to have acquired JJR. As such, these financial statements are a continuation of TPC. Immediately thereafter, a further 34,285,714 common shares were reserved for each subscription receipt related to the private placement.

On July 20, 2005, JJR changed its name to Tonbridge Power Inc., (the "Company").

As of December 31, 2005, the corporate structure that remains includes the Company and the Company's 65% investment in MATL.

2. Summary of significant accounting policies

a) Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles.

Tonbridge Power Inc.

Notes to the Consolidated Financial Statements

Audited

December 31, 2005

2. Summary of significant accounting policies (Continued)

a) Basis of presentation (Continued)

These consolidated financial statements include the accounts of Tonbridge Power Inc. and its 65% owned subsidiary, MATL. All inter-company account balances and transactions have been eliminated on consolidation.

All amounts are presented in Canadian dollars.

b) Measurement uncertainty

The timely preparation of financial statements requires that management make estimates and assumptions and use judgment regarding assets, liabilities, revenues and expenses. Such estimates relate primarily to transactions and events that have not settled as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur.

c) Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term interest bearing deposit balances with maturities of three months or less.

d) Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is being provided on a declining balance basis at the following rates:

Computers	45%
Telephone equipment	30%
Furniture and fixtures	20%

e) Deferred development costs

The Company follows the deferral method of capitalizing all direct project costs related to the development of the Company's electricity transmission line between Lethbridge, Alberta and Great Falls, Montana. The criteria for deferral of development costs, is met when the product is clearly identified, the technical feasibility has been established, management has indicated its intention to market the product, the future market is identified and adequate resources exist or are expected to be available to complete the project. Amortization of the deferred development costs will commence upon commercial use of the transmission line and will be applied on a systematic basis. In addition, the Company assesses impairment by comparing the expected non-discounted cash flows from the project to the carrying value of the deferred development costs.

Tonbridge Power Inc.

Notes to the Consolidated Financial Statements

Audited

December 31, 2005

2. Summary of significant accounting policies (Continued)

f) Income taxes

Income taxes are recorded using the liability method of accounting. Future income taxes are calculated based on the differences between the accounting and income tax basis of an asset or liability, using the substantively enacted income tax rates. Changes in income tax rates that are substantively enacted are reflected in the accumulated future income tax balances in the period the change occurs. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

g) Per share amounts

The Company uses the treasury stock method to determine the dilutive effect of stock options. This method assumes that proceeds received from the exercise of in-the-money stock options are used to repurchase common shares at the average market price for the period. Basic net loss per common share is determined by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted earnings per share will be computed by giving effect to the potential dilution that would occur if stock options were exercised.

h) Financial instruments

The Company's financial instruments consist of cash, receivables, payables and accruals. The carrying values approximate their fair values due to the short term maturity of these instruments. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

3. Business acquisition

On June 29, 2005, JJR for the acquisition of TPC, issued 78,333,332 shares as consideration. This transaction is considered a reverse takeover with TPC identified as the acquirer. The consolidated financial statements include the results of operations from the date of acquisition. The fair value of the JJR net assets acquired is as follows:

Net assets acquired:

Cash	\$	531,515
Receivables		193
Payables		<u>(57,129)</u>
	\$	<u>474,579</u>

Tonbridge Power Inc.

Notes to the Consolidated Financial Statements

Audited
December 31, 2005

3. Business acquisition (Continued)

Consideration paid:
78,333,332 common shares issued \$ 474,579

The Company incurred costs related to the acquisition of \$85,000. These costs were expensed in the period of the acquisition.

4. Acquisition of net assets

On February 7, 2005, TPC completed the acquisition of a 65% interest in Montana Alberta Tie Ltd. for \$76,683. In conjunction with this acquisition, TPC subscribed for 19,499,998 Class B voting shares for \$1,100,000. The acquisition has been accounted for by the purchase method of accounting and the consolidated financial statements include the results of operations from the date of acquisition.

The fair values of the net assets so acquired are as follows:

	<u>2005</u>
Cash	\$ 628
Receivables	13,636
Development costs	365,865
Payables and accruals	(217,046)
Future income taxes	<u>(86,400)</u>
	\$ <u>76,683</u>
Consideration paid	
Transaction costs	\$ <u>76,683</u>

On July 7, 2005, the Company subscribed a further \$2,500,000 for one Class B share, as allowed for in the purchase agreements. Similarly, on November 10, 2005, a third and final subscription in the amount of \$1,000,000 was made for one Class B share. The obligation to make these contingent payments could not be reasonably determined on February 7, 2005, due to the uncertainty of a number of pre-requisite conditions.

Tonbridge Power Inc.

Notes to the Consolidated Financial Statements

Audited

December 31, 2005

5. Capital assets

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>2005 Net Book Value</u>
Computers	\$ 29,068	\$ 6,540	\$ 22,528
Furniture and fixtures	53,761	5,376	48,385
Telephone equipment	<u>7,511</u>	<u>1,127</u>	<u>6,384</u>
	<u>\$ 90,340</u>	<u>\$ 13,043</u>	<u>\$ 77,297</u>

6. Deferred development costs

Development costs have been capitalized during the year as follows:

	<u>2005</u>
Balance, beginning of year	\$ -
Development costs incurred	<u>3,186,213</u>
Balance, end of year	\$ <u>3,186,213</u>

Amortization has not been provided on the deferred development costs as the project is not in commercial operation.

7. Share capital

a) Authorized:

Unlimited number of common shares

b) Issued and outstanding common shares:

	<u>Number of Shares</u>	<u>Amount</u>
Balance, beginning of year	10,025,000	\$ 692,415
Issued for cash	1,955,000	1,740,001
Issued on acquisition	78,333,332	474,579
Issued on equity offering	34,285,714	6,000,000
Elimination of TPC shares	(1,955,000)	-
Elimination of JJR	-	(692,415)
Share issuance costs	-	(1,371,716)
Tax effect of share issue costs	-	86,400
Options exercised	<u>1,779,700</u>	<u>209,390</u>
Balance, end of year	<u>124,423,746</u>	\$ <u>7,138,654</u>

Tonbridge Power Inc.

Notes to the Consolidated Financial Statements

Audited

December 31, 2005

7. Share capital (Continued)

b) Issued and outstanding common shares (Continued):

Included in share issuance costs is the stock based compensation cost of \$318,166 related to options granted to the agent on the private placement and to Tonbridge Corporation for services rendered in connection with the offering.

As at December 31, 2005, under the requirements of the TSX Venture Exchange Inc., the Company has 71,215,086 common shares being held in escrow. An additional 15% of the initial escrowed amount or 11,869,183 shares are to be released every six months. On January 5, 2006, there was a second release from escrow, and a third release is scheduled for July 5, 2006.

In addition, 1,923,272 common shares are legended. Of the initial legended amount, 641,091 shares are to be released from trading restrictions every 6 months.

c) 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 December 31, 2005, 12,442,375 common shares were reserved for this purpose. The exercise price of each option approximates the market price of the Company's common shares on the date of the grant.

The following table summarizes the information relating to options as at December 31, 2005:

	<u>Number of Options</u>	<u>Average Weighted Exercise Price</u>
Outstanding, TPC beginning of year	-	\$ -
Previously granted by JJR	1,575,000	\$ 0.100
Granted	8,343,621	\$ 0.205
Exercised	<u>(1,779,700)</u>	<u>\$ 0.109</u>
Total options outstanding, end of year	<u>8,138,921</u>	<u>\$ 0.206</u>
Total options exercisable, end of year	<u>6,653,921</u>	<u>\$ 0.192</u>

Tonbridge Power Inc.

Notes to the Consolidated Financial Statements

Audited

December 31, 2005

7. Share capital (Continued)

c) Stock options (Continued):

The range of exercise prices of stock options outstanding and exercisable at December 31, 2005 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 Exercisable Options Outstanding	Weighted Average Exercise Price
\$ 0.175	6,193,921	3.34	\$ 0.175	5,793,921	\$ 0.175
\$ 0.250	1,050,000	4.56	\$ 0.250	450,000	\$ 0.250
\$ 0.370	<u>895,000</u>	<u>4.76</u>	<u>\$ 0.370</u>	<u>410,000</u>	<u>\$ 0.370</u>
	<u>8,138,921</u>	<u>3.65</u>	<u>\$ 0.206</u>	<u>6,653,921</u>	<u>\$ 0.192</u>

The weighted average fair market value of options granted during the period is \$0.21 per option. The fair value of each option granted was estimated on the date of grant using the Black Scholes option pricing model with the following weighted average assumptions:

	<u>2005</u>
Risk free interest rate	3.86%
Estimated hold period prior to Exercise - years	
Incentive Options	5.00
Agents' Options	1.92
Volatility in the price of the Company's shares	94%
Dividend yield rate	Nil

d) Contributed surplus

A total of \$640,391 in stock-based compensation cost was recognized in the period, of which \$322,225 related to compensation options to directors, officers and consultants, and the balance relates to options provided in connection with the private placement transaction and are therefore reflected as share issuance costs.

Tonbridge Power Inc.

Notes to the Consolidated Financial Statements

Audited

December 31, 2005

7. Share capital (Continued)

d) Contributed surplus

The following table summarizes the reconciliation of contributed surplus with respect to stock based compensation amounts:

	<u>2005</u>
Contributed surplus, beginning of year	\$ -
Stock-based compensation expense	322,225
Stock-based financing expense	318,166
Stock options exercised	<u>(16,068)</u>
Balance, end of year	<u>\$ 624,323</u>

8. Per share amounts

Basic loss per common share is computed by dividing the net loss by the weighted average number of common shares outstanding for the period. Diluted loss per common share is computed by dividing net loss by the diluted weighted average number of common shares outstanding for the period. In the calculation of diluted per share amounts, options under the stock option plan are assumed to have been converted or exercised on the later of the beginning of the year and the date granted. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. Loss per share on a diluted weighted average basis is the same as that presented for basic as all factors are anti dilutive.

	Eleven Months Ended December 31, <u>2005</u>
Weighted average number of shares outstanding	
Basic	103,474,979
Effect of stock options	<u>1,756,034</u>
Diluted	<u>105,231,013</u>

Tonbridge Power Inc.

Notes to the Consolidated Financial Statements

Audited
December 31, 2005

8. Per share amounts (Continued)

In calculating diluted weighted average shares outstanding the Company excluded 1,945,000 options, as the exercise price is greater than the average market price of the common shares for the year.

9. Related party transactions

- a) During the period ended December 31, 2005, the Company incurred \$210,000 in structuring and financing fees charges by Tonbridge Corporation, a 5.6% shareholder and manager of the Company. In addition, the Company paid \$750,000 in management fees to Tonbridge Corporation for executive management and officers services pursuant to a one year management contract expiring March 1, 2006. These transactions were agreed to by the related parties and, in the opinion of management, approximated fair market value.
- b) Prior to accepting the position of a director of the Company on June 29, 2005, the Company paid a director's company finders fees totaling \$62,000 relating to the first two private placements of equity to Tonbridge Power Corporation. This transaction was agreed to by the related parties and, in the opinion of management, approximated fair market value.
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10. Commitments and contingencies

- a) In November, the Company committed to the purchase of a phase shifting transformer required for the completion of the Project. The amount of the purchase order is \$10,959,000. A deposit of 5% or \$548,010 was made on November 5, 2005. The balance is due at varying dates in 2006 and 2007 depending on final delivery schedules.

- b) Lease commitments for office premises over the next three years are as follows:

2006	\$	59,138
2007		61,376
2008		<u>35,803</u>
	\$	<u>156,317</u>

Tonbridge Power Inc.

Notes to the Consolidated Financial Statements

Audited
December 31, 2005

11. Income taxes

- a) The income tax expense differs from the amounts which would be obtained by applying the expected income tax rate of 34.87% as follows:

	<u>2005</u>
Computed "expected" tax recovery	\$ (745,229)
Stock based compensation	112,360
Change in valuation allowance	677,757
Other	<u>(44,888)</u>
Future income tax recovery	\$ <u> -</u>

- b) The components of the Company's future income tax obligations arise as follows:

	<u>2005</u>
Future income tax assets	
Non-capital losses	\$ 1,768,228
Cumulative eligible capital	1,102
Share issue costs	<u>300,021</u>
	2,069,351
Future income tax liabilities	
Deferred development costs	<u>1,110,621</u>
Net future income tax asset	958,730
Valuation allowance	<u>(958,730)</u>
	\$ <u> -</u>

The Company has \$5,070,916 in non capital loss carry-forward for tax purposes, the benefit of which has not been recognized in these financial statements. These loss carry-forward balances expire in 2015.

Tonbridge Power Inc.

Notes to the Consolidated Financial Statements

Audited

December 31, 2005

12. Subsequent events

a) Options

On February 6, 2006, options to purchase 1,005,000 common shares were granted to officers and employees of the Company, at an exercise price of \$0.39.

Options to purchase common shares totalling 152,000 common shares were exercised for gross proceeds of \$26,600.

b) Issuance of shares

On February 9, 2006, the Company issued 471,527 common shares as settlement of directors' fees totalling \$105,000. These shares have been issued with legend and become free-trading on June 9, 2006.

c) Acquisition of MATL shares

On November 17, 2005, the Company and the minority shareholders of MATL entered into a letter of intent to sell their remaining shares in MATL, comprising a 35% interest, to the Company for 35,929,737 common shares of the Company. In addition, the Company agreed to an incentive compensation arrangement whereby the vendors of the MATL shares can earn up to 6,000,000 additional common shares in aggregate, if the construction commences by August 1, 2006, the commissioning of the transmission line occurs before March 1, 2007 and the construction budget, as approved, is not exceeded by 5%. Such entitlement is earned as to one third each for every contingent event.

The transaction documents were completed on March 20, 2006 with final closing subject only to regulatory and tax authority requirements and approvals.