

Auditors' Report

To the Shareholders of **Tonbridge Power Inc.**

We have audited the consolidated balance sheets of **Tonbridge Power Inc.** as at December 31, 2006 and December 31, 2005 and the consolidated statements of operations and deficit and cash flows for the years 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 audits.

We conducted our audits 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, 2006 and December 31, 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Calgary, Alberta
April 2, 2007

Chartered Accountants

Tonbridge Power Inc.

Consolidated Balance Sheets

As at December 31

2006

2005

Assets

Current

Cash and cash equivalents	\$ 3,722,811	\$ 1,810,190
Receivables	625,035	286,785
Prepaid expenses	47,464	75,545
Deposits	<u>322,909</u>	<u>615,340</u>
	4,718,219	2,787,860

Restricted cash (Note 4)	1,350,000	-
Property and equipment – furniture and fixtures (Note 5)	82,632	77,297
Deposit on property and equipment	10,735,155	548,010
Deferred development costs (Note 6)	11,304,731	3,186,213
Deferred financing costs (Note 7)	1,958,800	-
Intangible asset (Note 8b)	<u>18,621,233</u>	<u>-</u>
	\$ 48,770,770	\$ 6,599,380

Liabilities

Current

Payables and accruals	\$ 2,631,793	\$ 973,567
Loan payable (Note 9)	9,000,000	-
Future income taxes (Note 10)	<u>4,887,712</u>	<u>-</u>
	16,519,505	973,567

Shareholders' Equity

Share capital (Note 11b)	32,553,668	7,138,654
Contributed surplus (Note 11d)	1,560,239	624,323
Warrants (Note 11e)	3,647,310	-
Deficit	<u>(5,509,952)</u>	<u>(2,137,164)</u>
	<u>32,251,265</u>	<u>5,625,813</u>
	\$ 48,770,770	\$ 6,599,380

Commitments and contingencies (Note 15)

Subsequent events (Note 16)

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 Statements of Operations and Deficit

	Twelve Months Ended December 31, 2006	Eleven Months Ended December 31, 2005
Revenue	\$ <u>197,464</u>	\$ <u>58,861</u>
Expenses		
Management fees	989,000	875,000
Directors' fees	188,917	71,083
Stock-based compensation (Note 11(d))	522,724	322,225
General and administrative	2,570,884	914,674
Amortization	24,597	13,043
Financing costs	<u>109,049</u>	<u>-</u>
	<u>4,405,171</u>	<u>2,196,025</u>
Loss before taxes	(4,207,708)	(2,137,164)
Future income tax recovery (Note 10)	<u>834,920</u>	<u>-</u>
Net loss	(3,372,788)	(2,137,164)
Deficit, beginning of year	<u>(2,137,164)</u>	<u>-</u>
Deficit, end of year	\$ <u>(5,509,952)</u>	\$ <u>(2,137,164)</u>
Net loss per common share:		
Basic and Diluted	\$ <u>(0.02)</u>	\$ <u>(0.02)</u>
Weighted average number of common shares outstanding:		
Basic (Note 12)	<u>177,537,283</u>	<u>103,474,979</u>

See accompanying notes to the consolidated financial statements.

Tonbridge Power Inc.

Consolidated Statements of Cash Flows

	Twelve Months Ended December 31, 2006	Eleven Months Ended December 31, 2005
Operating activities:		
Net loss	\$ (3,372,788)	\$ (2,137,164)
Amortization	24,597	13,043
Financing costs	4,698	-
Stock-based compensation	522,724	322,225
Directors' fees	168,000	-
Future income tax recovery	<u>(834,920)</u>	<u>-</u>
	(3,487,689)	(1,801,896)
Change in non-cash operating working capital:		
Receivables	(338,250)	(272,956)
Deposits	292,431	(615,340)
Prepaid expenses	28,081	(75,545)
Payables and accruals	<u>1,658,226</u>	<u>699,391</u>
	(1,847,201)	(2,066,346)
Financing activities:		
Issuance of share capital, net of costs	15,150,626	6,879,773
Loan payable	9,000,000	-
Restricted cash	(1,350,000)	-
Deferred financing costs	<u>(705,209)</u>	<u>-</u>
	22,095,417	6,879,773
Investing activities:		
Deposit on property and equipment	(10,187,145)	(548,010)
Purchase of property and equipment	(29,932)	(90,340)
Development costs incurred	(8,118,518)	(2,820,347)
Corporate acquisition (Note 8)	-	(76,683)
Cash acquired on acquisition (Note 8)	-	628
Cash acquired on acquisition of JJR (Note 3)	<u>-</u>	<u>531,515</u>
	(18,335,595)	(3,003,237)
Net change in cash and cash equivalents	1,912,621	1,810,190
Cash and cash equivalents, Beginning of year	<u>1,810,190</u>	<u>-</u>
End of year	\$ 3,722,811	\$ 1,810,190

See accompanying notes to the consolidated financial statements.

Tonbridge Power Inc.

Notes to the Consolidated Financial Statements

December 31, 2006

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 Limited ("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.

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 subscription receipts related to the private placement.

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

On April 27, 2006, the Company issued 35,929,001 shares in exchange for 100% of the common shares of Rocky Mountain Power and Lectrix Limited, and their holdings of the remaining 35% of the voting equity shares of MATL.

As of December 31, 2006, the corporate structure that remains includes the Company, the Company's 100% interests in Rocky Mountain Power, Lectrix Limited and 100% of the voting equity shares of MATL. All inter-company account balances and transactions have been eliminated on consolidation.

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.

Tonbridge Power Inc.

Notes to the Consolidated Financial Statements

December 31, 2006

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.

These consolidated financial statements include the accounts of Tonbridge Power Inc., and its wholly owned subsidiaries: Montana Alberta Tie U.S. Holdings Inc.(formerly Rocky Mountain Power), Lectrix Ltd., and 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) Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization of property plant and equipment is included in operating costs. Amortization is being provided on a declining balance basis at the following rates:

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

Tonbridge Power Inc.

Notes to the Consolidated Financial Statements

December 31, 2006

2. Summary of significant accounting policies (Continued)

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 outlined in CICA Handbook whereby the product is clearly identified, the technical feasibility has been established, management has indicated its intention to market the product, and 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 with commercial use of the process and will be applied on a systematic basis. In addition, on an annual basis the Company performs an impairment test by comparing the expected cash flows from the project to the carrying value of the deferred development costs on a non-discounted basis.

f) Deferred financing costs

The Company capitalizes costs related to the issuance of debt instruments and charges these costs to operations over the term of the debt instruments.

g) Intangible assets

Intangible assets acquired on the acquisition of MATL represent revenue contracts which will be amortized over the life of such contracts being twenty five years starting at commencement of operations. Intangible assets are reported net of accumulated amortization. The carrying value of intangible assets is reviewed for impairment utilizing a two step process. The first step of the impairment test requires us to identify the asset and compare the fair value of each to the respective carrying value. The fair value of the asset is determined based on various analyses including non-discounted of net cash flow projections. If the carrying value is less than the fair value, no impairment exists and the second step does not need to be completed. If the carrying value is higher than the fair value, there is an indication that impairment may exist and a second step must be performed to compute the amount of the impairment. The Company tests for impairment annually and when an event occurs or circumstances change such that it is possible that there may be an impairment of the asset.

h) 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.

Tonbridge Power Inc.

Notes to the Consolidated Financial Statements

December 31, 2006

2. Summary of significant accounting policies (Continued)

i) Per share amounts

The Company uses the treasury stock method to determine the dilutive effect of the issued 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 loss per share will be computed by giving effect to the potential dilution that would occur if stock options were exercised.

j) Financial instruments

The Company's financial instruments consist of cash, receivables, payables and accruals and loan payable. The carrying values of cash, receivables, and payables and accruals approximates their fair values due to the short term maturity for these instruments. The loan payable approximates fair value due to its variable interest rate. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments, except as disclosed in Note 14.

k) Stock based compensation

The Company has a stock option plan that is described in Note 11(f). The fair value of any stock options granted to directors, officers and employees is recorded as an expense over the vesting period with a corresponding increase recorded to contributed surplus. The fair value of the stock-based compensation is determined using the Black-Scholes option pricing model and management's assumptions as disclosed in Note 11(f). Volatility is calculated based on the historical stock price of the Company since July 2005. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

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:		<u>2005</u>
Cash	\$	531,515
Accounts receivable		192
Accounts payable		<u>(57,129)</u>
	\$	<u>474,579</u>
Consideration paid:		
78,333,332 common shares issued	\$	<u>474,579</u>

Tonbridge Power Inc.

Notes to the Consolidated Financial Statements

December 31, 2006

3. Business acquisition (Continued)

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

4. Restricted cash

Pursuant to the terms of a credit agreement with HSH Nordbank (Note 9), the Company has placed \$1,350,000 (2005 - \$Nil) in an interest reserve account for purposes of paying interest on amounts due under such agreement.

5. Property and equipment

	<u>December 31, 2006</u>		
	<u>Cost</u>	<u>Depreciation</u>	<u>Net</u>
Computers	\$ 48,623	\$ 15,560	\$ 33,063
Office furniture	59,226	14,663	44,563
Telephone equipment	<u>8,143</u>	<u>3,137</u>	<u>5,006</u>
Balance, end of year	<u>\$ 115,992</u>	<u>\$ 33,360</u>	<u>\$ 82,632</u>

	<u>December 31, 2005</u>		
	<u>Cost</u>	<u>Depreciation</u>	<u>Net</u>
Computers	\$ 29,068	\$ 6,540	\$ 22,528
Office furniture	53,761	5,376	48,385
Telephone equipment	<u>7,511</u>	<u>1,127</u>	<u>6,384</u>
Balance, end of year	<u>\$ 90,340</u>	<u>\$ 13,043</u>	<u>\$ 77,297</u>

6. Deferred development costs

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Balance, beginning of year	\$ 3,186,213	\$ -
Development costs deferred	<u>8,118,518</u>	<u>3,186,213</u>
Balance, end of year	<u>\$ 11,304,731</u>	<u>\$ 3,186,213</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

Audited
December 31, 2006

6. Deferred development costs (Continued)

Development costs expensed during the year:

	<u>December 31,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
Total expensed to date:		
Management costs	\$ 989,000	\$ 875,000
General and administrative	2,570,884	927,717
Directors fees	188,917	71,083
Stock based compensation	<u>522,724</u>	<u>322,225</u>
Total	\$ <u>4,271,525</u>	\$ <u>2,196,025</u>

7. Deferred financing costs

Deferred financing costs consist of the following:

	<u>December 31,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
Balance, beginning of year	\$ -	\$ -
Deferred financing cost additions	1,963,498	-
Less: Accumulated amortization	<u>(4,698)</u>	<u>-</u>
Balance, end of year	\$ <u>1,958,800</u>	\$ <u>-</u>

8. Acquisition of net assets

a) Acquisition of 65% interest in MATL

On February 7, 2005, TPC completed the acquisition of a 65% interest in MATL, 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 acquired are as follows:

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

Tonbridge Power Inc.

Notes to the Consolidated Financial Statements

Audited
December 31, 2006

8. Acquisition of net assets (Continued)

On July 7, 2005, the Company subscribed for 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.

b) Acquisition of remaining 35% interest in MATL

On April 27, 2006, the Company issued 35,929,001 shares in exchange for 100% of the common shares of Rocky Mountain Power and Lectrix Limited, and their holdings of the remaining 35% of the voting equity shares of MATL. In addition, the Company agreed to an incentive compensation arrangement whereby the vendors of the MATL shares can earn additional shares. As at September 30, 2006, there remains an entitlement of 2,000,000 shares that may be issued in the event that the construction budget, as approved, is not exceeded by 5%. As at April 2, 2007, regulatory approval was obtained to reduce the entitlement of 2,000,000 bonus shares to the vendors of the MATL shares by 500,000 shares and to set up an incentive bonus share plan of 500,000 shares to employees of MATL. The contingent consideration of 2,000,000 bonus shares to the Company remains unchanged. If such contingent consideration is earned and issued, the fair value of the consideration will be accounted for as additional costs related to intangible assets.

The acquisition of MATL was accounted for as an acquisition of a concept rather than as an acquisition of a business. Accordingly, in the accounting for the acquisition of the 35% interest in MATL, the excess of the fair value of the consideration paid over the assets acquired was allocated to intangible assets, representing the revenue contracts. As the intangible asset is amortized in the future, the future income tax liability will be reduced.

The fair values of the assets acquired are as follows:

Net assets	\$ <u>751</u>
Intangible asset	12,128,009
Cost base increase due to estimated future income taxes	<u>6,493,224</u>
Carrying value of intangible assets	<u>18,621,233</u>
Assets acquired	\$ <u>18,621,984</u>
Consideration paid:	
Transaction valued at the average 10 day closing market price of Company shares on November 24, 2005 - 35,929,001 shares at \$0.3375	\$ <u>12,128,760</u>
Transaction costs	\$ <u>122,481</u>

Tonbridge Power Inc.

Notes to the Consolidated Financial Statements

Audited
December 31, 2006

9. Loan payable

	<u>December 31,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
HSH Nordbank Caymans Islands Branch	\$ <u>9,000,000</u>	\$ _____ -

On December 27, 2006, the Company, through its wholly-owned subsidiary MATL, entered into a credit agreement (the "Credit Agreement") with HSH Nordbank AG, Cayman Islands Branch ("HSH Nordbank"), whereby HSH Nordbank agreed to provide a credit facility of \$13,000,000, consisting of Tranche A commitment of \$9,000,000 and Tranche B commitment of \$4,000,000, to MATL. The proceeds of the loan will be used in the development of a transmission line between Alberta and Montana. The facility is due five years plus a day after the Tranche B closing date, and no later than July 12, 2012. The facility is secured by security interest over all present and future assets of the Company. The Credit Agreement also requires the establishment of an interest reserve account. As at December 31, 2006, the Company maintained an interest reserve account of \$1,350,000 with a financial institution. Indebtedness under the Credit Agreement currently bears interest at a rate determined to be the sum of (i) an average of Canadian Bank rates for Bankers Acceptances, (ii) an applicable margin, and (iii) to the extent permitted by law, 2% per annum. An alternate interest rate structure based on Canadian Prime Rate advances was available. The interest rate set at December 27, 2006 for a three month period was 13.3414%. As at March 27, 2007, the rate has been set for the next three months at 13.3486%.

A commitment fee of 1% is to be charged on any undrawn amount of Tranche B commitment.

The terms of the Credit Agreement provide for events of default which, among others, include failure to make payments when due, adverse judgment in excess of \$1,000,000, and insolvency or liquidation. The Credit Agreement also restricts the Company, among others, to incur additional indebtedness, enter into mergers and consolidations, dispose of assets, grant liens, change the scope of projects and nature of business, and make distributions.

In connection with the funding of Tranche A commitment of \$9,000,000, the Company granted HSH Nordbank 10,384,615 non-transferable warrants exercisable at a price of \$0.36 per share for an 18-month term. The Company also granted HSH Nordbank a further 4,615,385 non-transferable warrants exercisable at a price of \$0.39 for a 24-month term. The latter warrants are only exercisable if Tranche B commitment of \$4,000,000 is advanced.

The principal amount outstanding is scheduled for repayment in 2012.

Tonbridge Power Inc.

Notes to the Consolidated Financial Statements

Audited
December 31, 2006

10. 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 32.49% as follows:

	December 31, <u>2006</u>	December 31, <u>2005</u>
Computed "expected" tax recovery	\$ (1,367,084)	\$ (745,229)
Stock-based compensation	169,833	112,360
Change in valuation allowance	1,099,322	677,757
Other	(62,175)	(44,888)
Effect of changes in tax rates	<u>(674,817)</u>	<u>-</u>
Future income tax	\$ <u>(834,920)</u>	\$ <u>-</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:

	December 31, <u>2006</u>	December 31, <u>2005</u>
Future income taxes from:		
Non-capital losses carried forward	\$ 5,186,952	\$ 1,768,228
Share issuance costs	701,005	300,021
Intangible asset	1,401	1,102
Development costs	(3,278,372)	(1,110,621)
Intangible asset, Acquisition of MATL	(5,400,158)	-
Deferred financing costs	(40,339)	-
Property and equipment	(149)	-
Valuation allowance	<u>(2,058,052)</u>	<u>(958,730)</u>
Future income taxes	\$ <u>(4,887,712)</u>	\$ <u>-</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

Audited
December 31, 2006

10. Future Income taxes (Continued)

The Company has approximately \$17.5 million in non-capital losses for income tax purposes 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	\$ 12,407,808

11. Share capital

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

b) **Issued and outstanding common shares**

	<u>December 31, 2006</u>		<u>December 31, 2005</u>	
	<u>Number of Shares</u>	<u>Amount</u>	<u>Number of Shares</u>	<u>Amount</u>
Balance, beginning of year	124,423,746	\$ 7,138,654	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)
Tax effect of share issue costs	-	770,592	-	86,400
Shares for a debt issue				
- directors' fees	625,844	168,000	-	-
(i) MATL acquisition	35,929,001	12,128,760	-	-
(ii) CIBC - financing	41,072,250	14,861,323	-	-
Options and warrants exercised	611,390	134,825	1,779,700	209,390
Share issuance costs	-	(2,648,486)	-	(1,371,716)
Balance, end of year	<u>202,662,231</u>	<u>\$ 32,553,668</u>	<u>124,423,746</u>	<u>\$ 7,138,654</u>

i) MATL 35% acquisition

On April 27, 2006, the Company issued 35,929,001 common shares in order to acquire the remaining 35% equity interest in MATL (Note 8b). Shares were issued with escrow provisions as if they had been issued on June 29, 2005.

Tonbridge Power Inc.

Notes to the Consolidated Financial Statements

Audited
December 31, 2006

11. Share capital (Continued)

ii) CIBC equity financing

On April 27, 2006, the Company completed a short form prospectus of 41,072,250 units at a price of \$0.42 per unit for total gross proceeds of \$17,250,345. Of the total cash received, \$2,389,022 has been allocated to the value received for the warrants issued using the Black- Scholes option pricing model and \$14,861,323 has been allocated to the value of the shares issued.

c) Shares being held in escrow

As at December 31, 2006, under the requirements of the TSX Venture Exchange Inc., the Company has 68,962,897 common shares being held in escrow. The next release from escrow of 17,187,307 shares is scheduled for January 5, 2007.

d) Contributed surplus

A total of \$522,724 in stock-based compensation cost was recognized during the year, 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:

	December 31, 2006	December 31, 2005
Balance, beginning of year	\$ 624,323	\$ -
Stock-based compensation expense	522,724	322,225
Stock options exercised	(25,831)	(16,068)
Stock-based financing cost: Options	<u>439,023</u>	<u>318,166</u>
Balance, end of year	\$ <u>1,560,239</u>	\$ <u>624,323</u>

Tonbridge Power Inc.

Notes to the Consolidated Financial Statements

Audited
December 31, 2006

11. Share capital (Continued)

e) Warrants

	<u>December 31, 2006</u>	
	<u>Number of Warrants</u>	<u>Stated Capital</u>
Balance, beginning of year	-	\$ -
April 27, 2006 equity financing	20,536,125	2,389,022
December 27, 2006 development loan	<u>10,384,615</u>	<u>1,258,288</u>
Balance, end of year	<u>30,920,740</u>	<u>\$ 3,647,310</u>

The Company had the following warrants outstanding at December 31, 2006:

	<u>Number of Warrants</u>	<u>Weighted Average Exercise price</u>	<u>Weighted Average Remaining Contractual Life</u>
Warrants outstanding, beginning of the year	-	-	-
Granted	20,536,125	\$ 0.55	0.82
	<u>10,384,615</u>	<u>\$ 0.39</u>	<u>1.49</u>
Warrants outstanding, at end of year	<u>30,920,740</u>	<u>\$ 0.50</u>	<u>1.05</u>
Warrants exercisable, at end of year	<u>30,920,740</u>	<u>\$ 0.50</u>	<u>1.05</u>

On April 27, 2006, the Company completed a short form prospectus for the issuance of 41,072,250 units at a price of \$0.42 per unit for total gross proceeds of \$17,250,345. Each unit is comprised of one common share and one half share purchase warrant, each whole share purchase warrant entitling the holder to purchase one common share at \$0.55. Of the offering price, the Company allocated \$0.362 to each common share and \$0.058 to each half warrant. Warrants are exercisable at any time to the date that is 18 months from the closing date of the offering, or October 27, 2007, after which time the warrants will expire.

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 \$0.39. Warrants are exercisable at any time and expire 18 months from the closing of the related financing (June 27, 2008). The fair value of each warrant granted was estimated on the date of grant using the Black Scholes option pricing model:

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11. Share capital (Continued)

	April 27, <u>2006</u>	December 27, <u>2006</u>
Weighted average fair market value of warrants granted	\$0.15	\$0.12

The following weighted average assumptions were used:

Risk free interest rate	4.15%	3.94%
Estimated hold period prior to exercise – years	1.5	1.5
Volatility in the price of the Company's shares	73%	86%
Dividend yield rate	Nil	Nil

At the time the Company receives the second tranche of \$4,000,000 from the Nordbank development loan, the 4,615,385 warrants issued to Nordbank will become exercisable at a price of \$0.39 for a 24 month term. The Black-Scholes pricing model will be used at that time to calculate the fair value of the warrants issued.

f) 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, 2006, 20,266,223 common shares were reserved for this purpose. From this reserve, there were 13,032,583 incentive options outstanding. The exercise price of each option approximates the market price of the Company's common shares on the date of the grant.

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:

	<u>December 31, 2006</u>	<u>December 31, 2005</u>		
	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Options</u>	
			<u>Weighted Average Exercise Price</u>	
Outstanding, beginning of year	8,138,921	\$ 0.206	-	\$ -
Previously granted by JJR	-	-	1,575,000	\$ 0.100
Granted	5,910,057	\$ 0.390	8,343,621	\$ 0.205
Forfeited	(205,000)	\$ 0.404	-	\$ -
Expired	(200,000)	\$ 0.405	-	\$ -
Exercised	<u>(611,390)</u>	<u>\$ 0.178</u>	<u>(1,779,700)</u>	<u>\$ 0.109</u>
Total options outstanding, end of year	<u>13,032,588</u>	<u>\$ 0.285</u>	<u>8,138,921</u>	<u>\$ 0.206</u>
Total options exercisable, end of year	<u>11,028,838</u>	<u>\$ 0.277</u>	<u>6,653,921</u>	<u>\$ 0.192</u>

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11. Share capital (Continued)

g) Stock options

The range of exercise prices of stock options outstanding and exercisable at December 31, 2006 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	5,592,531	2.53	\$ 0.175	5,592,531	\$ 0.175	
\$ 0.250	1,050,000	3.55	\$ 0.250	850,000	\$ 0.250	
\$ 0.330	1,645,000	4.99	\$ 0.330	-	\$ 0.330	
\$ 0.370	885,000	3.76	\$ 0.370	885,000	\$ 0.370	
\$ 0.390	800,000	4.10	\$ 0.390	650,000	\$ 0.390	
\$ 0.420	2,875,057	0.82	\$ 0.420	2,875,057	\$ 0.420	
\$ 0.440	185,000	4.40	\$ 0.440	176,250	\$ 0.440	
	<u>13,032,588</u>	<u>2.75</u>	<u>\$ 0.285</u>	<u>11,028,838</u>	<u>\$ 0.277</u>	

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

	<u>2006</u>	<u>2005</u>
Weighted average fair market value of options granted	\$0.236	\$0.116

The following weighted average assumptions were used:

Risk free interest rate	3.99%	3.86%
Estimated hold period prior to exercise – years		
Incentive Options	5.00	5.00
Agents' Options	1.50	1.92
Volatility in the price of the Company's shares	78%	94%
Dividend yield rate	Nil	Nil

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12. 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. Diluted loss per common share is computed by dividing net loss by the diluted weighted average number of common shares outstanding for the year. In the calculation of diluted per share amounts, options under the stock option plan and warrants 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.

	Twelve Months Ended, December 31, <u>2006</u>	Eleven Months Ended, December 31, <u>2005</u>
Weighted average number of shares outstanding:		
Basic	177,537,283	103,474,979
Effect of stock options and warrants	<u>3,638,837</u>	<u>1,756,034</u>
Diluted	<u>181,176,120</u>	<u>105,231,013</u>

In calculating diluted weighted average shares outstanding the Company excluded 3,860,057 (2005 - 1,945,000) options and 20,536,126 warrants (2005 - Nil), as the exercise price is greater than the average market price of the common shares for the year.

13. Related party transactions

- a) During the year ended December 31, 2006, the Company incurred \$150,000 (December 31, 2005 - \$210,000) in structuring and financing fees charges by Tonbridge Corporation, a 2.83% shareholder and manager of the Company. In addition, the Company paid \$950,000 (December 31, 2005 - \$750,000) in management fees to Tonbridge Corporation for executive management and officers' services pursuant to a one year management contract expiring March 1, 2007. These transactions were agreed to by the related parties and in the opinion of management, approximated fair market value.
- b) On May 4, 2006, Lorry Wilson was elected to sit on the board of Directors. Accordingly, after that date, management fees paid to Lorry Wilson and Associates to manage and direct the MATL project from the Calgary office are considered to be a related party transaction. During the period from May 4, 2006 until December 31, 2006, the Company incurred \$90,000 (December 31, 2005 - \$Nil) pursuant to a contract dated February 3, 2005 at \$10,000 per month expiring February 7, 2007 and the amount is in deferred development costs. These transactions were agreed to by the related parties and, in the opinion of management, approximated fair market value.

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14. Financial instruments

Interest rate risk

The Company is exposed to changes in interest rates as a result of the loan payable to HSN Nordbank, bearing interest at a rate determined to be the sum of (i) an average of Canadian Bank rates for Bankers Acceptance; (ii) an applicable margin and, (iii) to the extent permitted by law, 2% per annum.

15. Commitments and contingencies

a) In March 2006, the Company contracted with a vendor for the purchase of a phase shifting transformer required for the completion of the Project. The amount of the purchase order is \$10,959,000. As at December 31, 2006, \$8,548,010 has been paid towards the purchase price. The equipment has been completed and is currently in storage in Germany. The balance of \$2,410,990 is due at Notice to Proceed for construction.

b) The Company maintains an office in Calgary, Alberta. Lease commitments for the next two years are as follows:

2007	\$	122,574
2008		<u>71,502</u>
	\$	<u>194,076</u>

c) 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, L.P as beneficiary in the amount of \$9,200,000. 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 so long as the letter of credit is outstanding, calculated monthly and payable in arrears on the last day of each month.

16. Subsequent events

a) Options

Up until April 2, 2007, 274,000 options were exercised at an exercise price of \$0.175 per option and gross proceeds were received of \$47,950.

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16. Subsequent events (Continued)

b) Issuance of shares

On February 23, 2007, the Company announced its intention to issue 308,917 shares in settlement of the \$97,000 of fees earned by eight directors and one Board advisor from June 28, 2006 to December 31, 2006. These shares will be issued after receiving regulatory approval.