



powering a cleaner tomorrow

RUN OF RIVER POWER INC.

Management Discussion and Analysis

Year Ended December 31, 2009

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The following Management's Discussion and Analysis ("MD&A") includes financial information from, and should be read in conjunction with, the audited Consolidated Financial Statements of Run of River Power Inc. ("Corporation" or "ROR") for the year ended December 31, 2009. The Corporation reports its financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles ("GAAP") in Canadian dollars. This MD&A was prepared with information available as of April 30, 2010. Additional information and disclosure relating to the Corporation can be found on SEDAR at www.sedar.com or on the Corporation's website at www.runofriverpower.com.

FORWARD-LOOKING STATEMENTS

This MD&A includes forward-looking statements. All statements other than statements of historical facts contained in this MD&A, including statements regarding the future financial position, business strategy, plans and objectives of management for future operations, are forward-looking statements. The words "believe", "may", "will", "estimate", "continue", "anticipate," "intend", "should", "plan", "expect" and similar expressions, as they relate to the Corporation, are intended to identify forward-looking statements. The Corporation has based these forward-looking statements on the current expectations and projections about future events and financial trends that it believes may affect its financial condition, results of operations, business strategy and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions as described elsewhere in this MD&A.

Other sections of this MD&A may include additional factors that could adversely affect the business and financial performance. Moreover, the Corporation operates in a very competitive and rapidly changing business environment. New risk factors emerge from time to time and it is not possible for management to predict all risk factors, nor can the Corporation assess the impact of all factors on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Readers should not rely upon forward-looking statements as predictions of future events or performance. The Corporation cannot provide assurance that the events and circumstances reflected in the forward-looking statements will be achieved or will occur. Although the Corporation believes that the expectations reflected in the forward-looking statements are reasonable, the Corporation cannot guarantee future results, levels of activity, performance, or achievements.

OVERVIEW

Run of River Power Inc. develops renewable, sustainable energy through its portfolio of run-of-river and biomass projects in British Columbia. The Corporation's first run-of-river power project in operation is an Eco Logo® certified 7.6 MW facility based on Brandywine Creek near Whistler, BC. The facility began producing electricity in 2005, with all of its production sold to BC Hydro under a 20 year Electricity Purchase Agreement ("EPA"). Currently the Brandywine facility is Run of River's sole source of revenue; however, 639 MW of run-of-river power projects and 94 MW of biomass power projects are currently in various stages of development.

The Corporation and its wholly owned subsidiaries: 1554675 Ontario Limited (currently inactive), Rockford Energy Corporation ("Rockford"), Jascott Holdings Corp. ("Jascott"), Northwest Cascade Power Ltd. ("NWCP"), Crawford Energy Corp., Raffuse Energy Corporation, Skookum Energy Corp., Sea to Sky Power Corporation, Western Biomass Power Corp. ("Western Biomass") and its 80% owned subsidiary Pacific Northwest Biomass Corporation ("PNBC") are incorporated in the Province of British Columbia, Canada. The

Corporation is a reporting issuer in British Columbia and Alberta and its common shares trade on the TSX Venture Exchange (TSX-V) under the symbol ROR.

The Corporation's 38 run-of-river power sites are comprised of five clusters that will have an estimated capacity of 639 MW and an annual output of 2,277 GWh of electricity. Two power clusters, the Mamquam Cluster and Upper Pitt Cluster, comprised of 11 projects, are strategically located near the lower mainland of BC where the demand for power is the greatest. These two clusters will have an estimated capacity of 202 MW and an annual output of 777 GWh of electricity. The remaining three power clusters are located in central BC in the Klinaklini, Mosley and Bella Coola watersheds, all of which are accessed via Highway 20. They comprise 27 projects that will have a combined estimated capacity of 437 MW and an annual output of 1,544 GWh of electricity.

In 2005 the Corporation acquired the Upper Pitt Cluster that comprises projects covering eight tributaries of the Upper Pitt River. The Upper Pitt River is located about 40 kilometres from Vancouver. A comprehensive development plan is being advanced for the 25 MW Skookum Creek project in the Mamquam Cluster. On March 31, 2010, BC Hydro announced that Run of River Power Inc. was selected for an award of an EPA for the 25 MW Mamquam Power Project, located on Skookum Creek.

The Corporation is pursuing two biomass initiatives: the 60 MW Tsilhqot'in Biomass Power Project, to be located 75 kilometres west of Williams Lake in Hanceville, BC and the 34 MW Suskwa Biomass Power Project, to be located near New Hazelton, BC in the northwest corner of the province. Combined these projects will have a rated capacity of 94 MW of capacity and generate approximately 772 GWh of electricity annually. The Corporation is awaiting Phase II Biomass RFP, expected to be announced in spring 2010.

OUTLOOK

Federal

In April 2007, the Government of Canada unveiled its action plan to reduce greenhouse gases and air pollution. The proposed framework for the Clean Air Regulatory Agenda ("CARA") targets stabilization, then reduction of greenhouse gases and air pollutants. Short-term targets are to be expressed as reductions from 2006 levels. For existing facilities, emission intensity reduction targets are to be based on an improvement of 6% each year from 2007 to 2010 (for cumulative reduction of 18% of 2006 levels by 2010). Every year thereafter, a 2% continuous emission-intensity improvement will be required, resulting in an industrial emission-intensity reduction of 26% by 2015. Carbon-emitting electricity generation companies are expected to meet their obligations by reducing their own emissions, contributing to a technology fund, using emissions trading or offsets, or by using a one-time credit for verifiable early action undertaken between 1992 and 2006. Also, in March 2008 the Government of Canada released draft regulations addressing GHG emissions. The draft has been issued for a period of consultation, after which the federal government is expected to finalize the regulations, at an as yet undetermined date. The federal government's actions on GHG emissions and other pollutants are not projected to have a negative impact on the Corporation's existing generation portfolio. However, it is reasonable to assume that such regulation will negatively impact the cost structure of competitors utilizing carbon-based fuels for electricity generation.

Provincial

Despite its vast hydroelectric resources, over the last several years BC has become a net importer of electricity and is facing a very significant supply-demand gap. BC Hydro has projected energy generation deficits of up to 1,400 MW by 2015. In response to this growing shortfall, the provincial government enacted its Energy Plan in 2007 to meet the shortfall through conservation and acquisition of clean and renewable energy resources. In addition to becoming energy self-sufficient by 2016, the BC Energy Plan also includes the goals of having 90% of the province's electricity generated from clean sources, as well as having all new generation with zero net Greenhouse Gas ("GHG") emissions, with overall emissions dropping 33% by 2020 from 2007 levels. In supporting the BC Energy Plan, the government initiated three programs for power acquisition. These include:

- The Clean Call for Power, for projects greater than 10 MW;
- The Standing Offer Program, a standardized, fast track program for projects 10 MW or smaller; and
- The Bioenergy Call for Power, consistent with the Bioenergy Strategy released on January 31, 2008, for projects using beetle-killed fibre and other sources.

On June 11, 2008, BC Hydro issued a request for proposal under the Clean Call for Power for 5,000 GWh per year of seasonal and hourly firm energy to help ensure that the Province of BC has sufficient electricity to meet its electricity needs by 2016.

On November 2, 2009, the Premier of British Columbia announced that the Province will establish a Green Energy Advisory Task Force with the mandate to ensure that BC remains a leader in clean and renewable energy by developing its resources, maximizing its opportunities and establishing its potential as the supplier of choice for clean power. The task force groups will consist of clean-energy experts, energy consultants, climate experts, leading academics, First Nation representatives and environmentalists. The Green Energy Advisory Task Force will be comprised of four advisory task force groups that will address:

- Procurement and Regulatory Reform
- Carbon Pricing, Trading and Export Market Development
- Community Engagement and First Nations Partnerships
- Resource Development

On November 17, 2009 BC Hydro announced that it will advance discussions with proponents of 47 projects and that 21 projects will not proceed further at this stage due to higher levels of proposed risk. BC Hydro notified the Corporation that its 25 MW Mamquam project would be proceeding to the next stage. BC Hydro also advised ROR that uncertainty related to the transmission route for the Upper Pitt Project posed sufficient risk to the project such that the proposal would not be proceeding to the next stage of the 2008 Clean Power Call. The Corporation intends to address the transmission routing and intends to re-submit the Upper Pitt proposal into BC Hydro's next Clean Power Call.

On February 9, 2010, the BC Provincial Government's throne speech announced a new agenda to maximize the Province's potential as a clean energy powerhouse and a global leader in climate action. The Government also announced that it will be enacting a new "Clean Energy Act" that will provide for "fair, predictable, clean power calls". In terms of Biomass, the government promised a new receiving license to give bioenergy producers new certainty of fibre supply, while a new stand as a whole pricing system will encourage utilization of logging residues and low grade material that was previously burned or left on the forest floor. The outlook for the clean energy sector in BC remains very strong.

On March 31, 2010, after successful negotiations, BC Hydro announced that Run of River Power Inc. was selected for an award of an EPA for the 25 MW Mamquam Power Project. The Mamquam project was one of 21 projects selected for EPA awards from the 2008 Clean Power Call. The Corporation is now actively engaged in pursuing the necessary permits and environmental approvals. The Corporation is also reviewing financing options for the Mamquam project.

On April 28, 2010, the BC Government released the Clean Energy Act which is intended to increase focus on clean energy development and conservation. This new Act establishes a long-term vision for British Columbia to become a clean-energy powerhouse by setting out 16 specific energy objectives that will guide the government, BC Hydro and the British Columbia Utilities Commission in advancing BC's energy vision.

Primary focus will be in three areas:

1. Ensuring electricity self-sufficiency at low rates via long term planning, public investments and conservation, and, new investments in clean, renewable power and energy security.
2. Harnessing BC's clean-power potential to create jobs in all regions of the province.
3. Strengthening environmental stewardship and reducing greenhouse gases.

The Clean Energy Act builds upon the work of the Green Energy Advisory Task Force appointed by the government in November 2009 to recommend a strategic action for turning BC's clean power potential into real economic, environmental and social benefits for British Columbians. The Corporation is currently reviewing this new legislation which sets the foundation for a new future of economic growth and job creation throughout all regions of BC as well as increased opportunity for the development of clean energy projects.

In terms of the 2009 Bioenergy Call for Power Phase II, BC Hydro had indicated initially that it would be issuing draft RFP documents in May 2009. On October 9, 2009, BC Hydro announced it was continuing to work to resolve key aspects of the Biomass Projects RFP. These include fuel risk sharing options, consideration and integration of new First Nations-related requirements, and refining the eligibility criteria to limit participation by customers who are eligible to receive funding under the Government of Canada's Pulp and Paper Green Transformation Program. When the Biomass Phase II RFP documents are issued, the Corporation will submit proposals for both of its Biomass projects.

PROJECT UPDATES

Mamquam Cluster Run-of-River Project (Advanced Development)

Mamquam Power Cluster (47 MW)		
	Capacity (MW)	Estimated Energy (GWh/yr)
Skookum Creek	25	98
Crawford Creek	7	28
Raffuse Creek	10	40
Mamquam Headwaters	5	19

The Mamquam project is approximately 70 km north of Vancouver. The cluster will connect to BC Hydro's grid at the Cheekye Substation, just north of Squamish, BC. This cluster of run-of-river power projects will have a combined capacity of 47 MW and will generate an estimated 185 GWh/yr of green electricity. A Feasibility Interconnection Study Agreement for connection to the grid was submitted to the British Columbia Transmission Corporation ("BCTC") on November 17, 2008. On November 25, 2008, the Corporation submitted a proposal for Skookum Creek (25 MW) into BC Hydro's Clean Call for Power. The remaining creeks with a combined capacity of 22 MW will be advanced at a later date into BC Hydro's Standing Offer Program. On March 31, 2010, BC Hydro announced that Run of River Power Inc. was selected for an award of an EPA for the Mamquam Power Project located on Skookum Creek with an expected Commercial Operation Date of January 2014. The Corporation is now actively engaged in pursuing the necessary permits and environmental approvals. The Corporation is also reviewing financing options for the Mamquam project.

Upper Pitt Cluster (Advanced Development)

Upper Pitt Cluster (155 MW)		
	Capacity (MW)	Estimated Energy (GWh/yr)
Bucklin Creek	30	108
Pinecone Creek	25	90
Shale Creek	15	54
Steve Creek	15	51
Corbold Creek	20	84
East Corbold Creek	15	69
Homer Creek	10	44
Boise Creek	25	92

The Corporation and its wholly owned subsidiary, NWCP, have been exploring the development of run-of-river power projects in the Fraser Valley Regional District since the successful development of the Brandywine Creek project in 2005. The cluster includes seven run-of-river power projects on eight tributaries of the Upper Pitt River, located North of Pitt Lake, approximately 40 km east of Vancouver, BC and 45 km north of Pitt Meadows, BC.

NWCP proposed a 138 kV, 42 kilometre transmission line (Upper Pitt – Mamquam transmission line) to transmit renewable energy from the Upper Pitt and Mamquam projects to BC Hydro’s Cheekye substation. Optimized hydrology studies support a combined plant capacity of 155 MW for the Upper Pitt Cluster and an estimated 592 GWh/yr of green electricity generation. These sites were chosen not only for the suitability of high-elevation creeks for run-of-river green power, but also for the proximity to the major population of the Lower Mainland, where new residential and commercial growth has increased the demand for electricity.

NWCP submitted an application for a park boundary adjustment to BC Parks (Ministry of Environment) in respect of its Upper Pitt Project. A park boundary adjustment would be required to allow for 4.3 kilometres of transmission line to cross a remote mountain pass in Pinecone Burke Provincial Park. In March 2008, the BC Environment Minister advised he would not recommend to Cabinet or the BC Legislature acceptance of a park boundary adjustment for Pinecone Burke Provincial Park.

The Katzie First Nation, which has a co-management agreement for Pinecone Burke Provincial Park, has initiated a Supreme Court civil suit against the BC Ministry of Environment regarding the Minister’s decision. The civil suit claims a breach of obligations to comply with the terms of a 1995 cooperative management agreement between the parties for the Park.

Subsequent to the Minister’s announcement regarding the Corporation’s application for a park boundary adjustment and his advice to the Corporation to consider other transmission route options for the project, the Corporation initiated discussions with the BC Ministry of Environment in relation to a “park use permit” for the purposes of constructing a 4.3 km transmission link under Pinecone Burke Provincial Park. This route option addresses concerns brought forward by the public and stakeholders during the “park boundary adjustment” process. The Corporation intends to pursue a park use permit concurrently with the environmental assessment review of the project.

A Feasibility Interconnection Study Agreement for connection to the grid was submitted to BCTC on November 17, 2008, for the Upper Pitt transmission line. On November 25, 2008, the Upper Pitt Project was submitted into BC Hydro’s Clean Power Call. However, on November 17, 2009 BC Hydro notified the Corporation that uncertainty related to the transmission route posed sufficient risk to the project such that the Upper Pitt proposal would not be proceeding to the next stage of the 2008 Clean Power Call. The Corporation is actively working to solve the transmission routing and will submit the Upper Pitt proposal into BC Hydro’s next Clean Power Call.

Future Run-of-River Development Prospects

Throughout 2009, the Corporation advanced 27 new run-of-river power projects in central British Columbia. Water License and Crown Land applications have been submitted to the Integrated Land Management Bureau (Ministry of Agriculture and Lands) on these projects.

The projects are located in the upper Klinaklini and Mosley watersheds, and in the area west of Williams Lake on the Chilcotin Plateau of central British Columbia, stretching to Bella Coola.

The Klinaklini power cluster has a capacity estimated at 117 MW. The Mosley power cluster has a capacity estimated at 96 MW, and the Bella Coola Cluster has a capacity estimated at 224 MW. The combined total output for these projects is estimated to be 1,544 GWh of green energy per year, enough power to meet the energy needs of approximately 150,000 homes.

Seasonality of Run-of-River Production

Production of electricity from run-of-river developments is highly dependent on weather conditions, and can vary significantly; thus, it is not necessarily meaningful to compare monthly production results. The use of month-to-month and year-to-year analysis rather than long-term averages provides a guide only; for example, a wet or dry month can vary significantly from that month's long-term average. A generally cooler spring would be expected to result in a slower ice pack melt and extend utilizable water volumes later into the summer. The feasibility of the Corporation's run-of-river projects is based upon long-term averages. Production by fiscal quarter based on these long-term averages is expected, over the longer term, to approximate:

Q1 – 10% Q2 – 34% Q3 – 36% Q4 – 20%

Biomass Projects

Run of River Power Inc.'s advanced development pipeline consists of the following biomass projects:

Biomass (94 MW)		
	Capacity (MW)	Estimated Energy (GWh/yr)
Tsilhqot'in Power Project (Western Biomass)	60	420
Suskwa Power Project (PNBC)	34	252

The Corporation currently has two large scale biomass power initiatives totalling 94 MW of base load capacity under development. The 60 MW Tsilhqot'in Power Project, located 75 km west of Williams Lake in Hanceville, BC is a joint venture between the Corporation's wholly owned subsidiary, Western Biomass, and the Tsilhqot'in National Government ("TNG"). It will utilize mountain pine beetle damaged timber, which has devastated over eight million hectares of pine forests in central British Columbia, unlogged roadside debris and sawmill waste for its fuel supply.

The second project is the 34 MW Suskwa Power Project, to be located in Northwest BC near New Hazelton. The Corporation, via its wholly owned subsidiary, Western Biomass Inc., currently owns 80% of PNBC. PNBC holds a 100% interest in the 34 MW Suskwa Power Project. The Suskwa Chiefs have an option to acquire, under certain conditions, up to 40% of PNBC. The plant is strategically located less than four kilometres from the provincial transmission grid and will draw from what has been described as one of the best fibre baskets in the province, primarily utilizing dead standing timber as well as biomass waste from existing logging operations in the area, for its fuel supply.

In June 2008, Tsilhqot'in Power Corp. (Western Biomass and the TNG) completed a detailed engineering study and fuel supply analysis for the 60 MW Tsilhqot'in Power Project. The Corporation, through PNBC, completed a similar fuel supply analysis for the 34 MW Suskwa Power Project. Western Biomass, together with the TNG and the Suskwa Chiefs Economic Corp. ("Suskwa"), submitted proposals to BC Hydro for the

two projects referred to above, in response to Phase I of its two-phase Bioenergy Call for Power, to supply energy generated from forest-based biomass. Applications were also filed with the BCTC for feasibility interconnection studies related to the two projects. BC Hydro awarded four EPA's under Phase I, primarily to forest companies with existing fibre tenures and partial infrastructure in place.

Western Biomass will resubmit the Tsilhqot'in Power Project and the Suskwa Power Project into BC Hydro's Bioenergy Call Phase II. Although no definitive timelines have been provided by BC Hydro, the Phase II process is expected to conclude with a selection of projects for EPA's in the latter part of 2010.

SELECT ANNUAL INFORMATION ¹

(\$000's except per share and generation amounts)	2009	2008	2007
Electricity sales	1,371	1,681	2,201
EBITDA	(857)	(814)	181
Net loss	(2,075)	(2,021)	(1,370)
Basic and diluted loss per share	(0.03)	(0.03)	(0.03)
Cash flow used in operations	(1,400)	(1,406)	(53)
Total assets	33,235	32,422	32,151
Long-term debt	10,707	11,128	11,521
Generation-MWh	23,566	29,074	38,514

(1) Selected annual financial information was derived from the audited consolidated financial statements for the most recent years with certain comparative figures reclassified to conform with the financial presentation adopted for the present year and is prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). EBITDA is provided to assist management and investors in determining the Corporation's cash flow provided by operations before interest and does not have any meaning prescribed in Canadian GAAP and may not be comparable to similar measures presented by other companies. Refer to Non-GAAP measures - EBITDA following for the reconciliation between this non-GAAP financial measure and comparable measures calculated in accordance with Canadian GAAP.

Non-GAAP measure - EBITDA

(\$000's)	2009	2008	2007
GAAP Measures in Consolidated Statements of Operations and Deficit			
Net (loss) for the year	(2,075)	(2,021)	(1,370)
Future income tax expense (recovery)	(131)	(59)	394
Net interest	685	617	523
Depreciation and amortization	664	649	634
Non-GAAP measure - EBITDA	(857)	(814)	181

RESULTS OF OPERATIONS

Revenues

2009 electricity sales of \$1,370,869 decreased \$310,590 or 18.5% from 2008 sales of \$1,681,459 as a direct result of a decrease in electricity generated to 23,566 MWh from 29,074 MWh. The decrease in electricity generation and sales is attributable to decreased production at the Brandywine Creek facility, predominantly due to less-than-expected precipitation during the year. Although a five-day unscheduled outage to remove silt from the head pond occurred in late September, and one of two generators was out of service for the last two months of 2009, management estimates that only about one GWh of production, or less than \$60,000 of revenue, was lost due to these two events.

Plant operating expense

2009 plant operating expense was \$651,695 or \$15,739 higher than 2008. This increase of 2.5% was in line with expectations.

Depreciation and Amortization

Depreciation and amortization expense increased to \$663,951 during 2009, compared to \$649,756 for 2008. This slight increase of \$14,195 or 2.2% was due to the capitalization and depreciation of additional assets at the Corporation's head office during 2009.

General and administration

General and administration ("G&A") expense of \$1,562,614 during 2009 was \$280,211 lower, or 15.2% lower than G&A expense of \$1,842,825 during 2008. The lower G&A costs were attributable to lower legal expenditures associated with biomass assets in 2008 and stock-based compensation compared to the same period last year, primarily in Q1 2008.

Interest expense

The Corporation incurred net interest expense of \$685,142 during 2009, compared to \$616,897 for 2008. This increase of \$68,245, or 11.1%, was the result of significant interest income earned in 2008 on the proceeds of the 2007 equity issue invested in interest bearing marketable securities. Those invested funds were drawn down significantly in 2009 to fund development initiatives.

Net loss and funds used in operations

The Corporation recorded a net loss for 2009 of \$2,075,161 compared to a net loss of \$2,021,399 for 2008. Year over year, the net loss worsened by \$53,762 or 2.7%. This is primarily attributable to lower electricity revenues offset somewhat by reduced G&A expenses. Funds used in operations were \$1,399,535 in 2009 compared to \$1,406,225 for 2008.

SELECTED QUARTERLY FINANCIAL INFORMATION

(in thousands of Canadian dollars except loss per share amounts)	2009				2008			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Electricity sales	274	434	577	86	431	664	477	109
Net loss	(594)	(418)	(317)	(746)	(511)	(278)	(464)	(768)
Basic and diluted loss per share	(0.01)	(0.01)	(0.00)	(0.01)	(0.01)	(0.00)	(0.01)	(0.01)

Production of electricity is highly dependent on weather conditions and can vary significantly resulting in significant variability in quarterly operating results as more fully explained on Page 7 under "Seasonality of Run of River Production".

FOURTH QUARTER

On October 31, 2009, an outage at a BC Hydro substation led to an outage at the Corporation's Brandywine facility that resulted in damage to one of the facility's two generators. The damaged generator is expected to be back in service in late May 2010. There was no significant impact on revenue in the fourth quarter as a result of this outage because seasonal water flows at Brandywine creek can typically be captured by one generator during that period. The Corporation's insurers have assessed the facility and repairs and business interruption are expected to be covered by insurance, subject to associated deductibles.

The Corporation earned electricity revenue of \$274,177 in the fourth quarter of 2009 compared to \$431,363 in the same quarter of 2008. This decrease of \$157,186 is attributed primarily to declining snowpack melt conditions and planned and unplanned outages during the fourth quarter of 2009. Generation during the fourth quarter of 2009 and 2008 was 7,459 MWh and 4,713 MWh respectively. This significant drop in fourth quarter production resulted in a net loss of \$593,846 in Q4 of 2009 as compared to \$511,479 during the same quarter in 2008.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

At December 31, 2009, the Corporation had \$2.6 million in cash on hand. These cash resources will be used to carry out further development of the Upper Pitt and Mamquam watersheds, the future run-of-river development prospects and the two biomass projects. Final regulatory approval of any of the facilities in development will require additional funds that will exceed the current resources of the Corporation. Additional financing in some form will be required. The completion of any of the projects in development is also expected to have a material impact on the Corporation's future operational results and cash flows. The Corporation currently foresees no impediments to its ability to meet its ongoing requirements and its development activities.

Commitments of capital expenditures will be wholly dependent on the successful completion of proposed projects. The success of these projects is dependent upon receiving the necessary water and other licences, the ability of the Corporation to obtain necessary financing to successfully complete the development and construction of the projects, the ability to economically generate electrical power and its ability to sell the electricity generated on a profitable basis to BC Hydro under EPA's.

With the award of an EPA for the Mamquam Project, the Corporation will need to raise capital of approximately \$95,000,000, the majority of which will be required in 2011 and 2012 as construction is initiated. Accordingly, the Company has commenced evaluating alternatives for raising the necessary equity capital and project debt to complete this project.

In addition, the Corporation will need to raise capital to support its administrative obligations and pursue development of its other early stage projects. Accordingly, the Corporation is currently in the process of raising the necessary capital.

The ability of the Corporation to continue with recommended programs on its current projects or to successfully acquire and develop additional projects is conditional on its ability to secure financing when required. There is no assurance that funding or finding a joint venture partner will be possible at the times or on terms desired by the Corporation.

Capital resources

The Corporation manages its capital structure as determined by management and approved by the Board of Directors. The Corporation's policy is to make adjustments to its capital structure based on changes in economic conditions and planned requirements. The Corporation has the ability to adjust its capital structure by issuing new equity or debt, selling assets to reduce debt or balance equity, and making adjustments to its capital expenditures program.

The Corporation monitors capital using a Debt Service Coverage Ratio that has been externally imposed as part of the loan agreement. The Corporation is required to maintain a four quarters rolling average Debt Service Coverage Ratio not less than 1.00:1. The resultant four quarter rolling average ratios are shown below:

March 31, 2009	0.84
June 30, 2009	1.01
September 30, 2009	0.91
December 31, 2009	0.62

At December 31, 2009 and for three of four quarters in 2009, the Corporation's subsidiary, Rockford Energy Corporation, was not in compliance with its minimum debt service coverage ratio of 1.00:1. This extended

situation was due to abnormally low water flow conditions and an extraordinary plant outage that resulted in damage to one of two generators. The generator is expected to be out of service until May 2010.

There are provisions in the loan agreement that enable the lender to take certain actions under such non-compliance circumstances. These actions consist of:

- Increase of the interest rate to 7.5% effective April 30, 2010;
- Increase of the debt service reserve to 9 months from the present level of 4 months, funded over a six month period; and
- Monthly cash sweep of any excess cash after debt service.

Should the Corporation achieve and maintain a debt service coverage ratio of 1.25:1 for eight consecutive quarters, the loan provisions noted above will be reinstated to their original terms. The Corporation is reviewing ways to increase revenues that will facilitate achieving the coverage ratio of 1.25:1.

The Corporation has agreed to provide the necessary funding to enable Rockford Energy Corporation to comply with these revised terms of its non-recourse debt. The lender has provided a waiver of the event of default at December 31, 2009.

OFF-BALANCE SHEET ARRANGEMENTS

The Corporation does not have any off-balance sheet arrangements.

RELATED-PARTY TRANSACTIONS

At December 31, 2009, the Corporation was owed \$113,962 (2008 - \$105,270) by Rockford Technology Corporation which has a director in common. The loan is unsecured and bears interest at 9%. The original loan due September 17, 2006 was extended under the same terms to December 17, 2009. The loan remains outstanding and the Corporation is actively pursuing collection. Accrued interest totalled \$17,384 at December 31, 2009 (2008 - \$8,692).

Included in accounts payable and accrued liabilities at December 31, 2009 is \$92,511 (2008 - \$6,801) payable to directors of the Corporation, principally for 2009 directors' fees.

During the year, in connection with the development of certain projects, the Corporation incurred consulting fees with a firm whose owner became a director of the Corporation in September 2009. Fees charged by this firm subsequent to the appointment of the director totalled \$73,049.

During the year the Corporation incurred certain project costs related to its biomass projects totalling \$121,983 (2008 - \$68,378) which may be recoverable should the projects proceed to completion.

These charges were measured by the exchange amount, which is the amount agreed upon by the transacting parties.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements requires the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. These estimates will affect assets, liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as revenues and expenses during the reporting periods. Such estimates are based on informed judgments made by management. Actual results could differ from those estimated as future confirming events occur. Significant estimates used in the preparation of the financial statements include, but are not limited to, the estimates of useful life and salvage values of property, plant and equipment, impairment of projects under development, asset retirement obligations share-based compensation and future income taxes.

Property, Plant and Equipment

The Corporation has adopted depreciation policies which are reflective of the estimated useful lives and abandonment costs, if any, of its assets. No amounts have been recorded in respect of abandonment as none of these assets have been identified at present. Hydroelectric assets tend to have long useful lives, often in excess of 50 years. Mechanical portions and assets such as transmission lines may require significant refurbishment from time to time in order to maintain their productive levels.

Projects Under Development

The Corporation capitalizes costs of developing its power generation projects. The recovery of those costs is dependent on the ability of the Corporation to obtain EPA's from BC Hydro and successfully construct the projects in an economic fashion.

Impairment of Long-Lived Assets

Long-lived assets held and used by the Corporation are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognized and recorded as an expense. The Corporation believes that costs capitalized in respect of its long-lived assets are not impaired and no adjustment to carrying values is necessary at this time.

Asset Retirement Obligations

The Corporation has an obligation to restore specific sites to an acceptable level at the end of each project life. The fair value of the liability for asset retirement obligations, related to the tangible long-lived assets, is recognized when the legal commitment exists and a reasonable estimate of fair value can be made. Asset retirement costs are amortized over the life of the projects. Amortization cost is included in depreciation and amortization. The asset retirement obligation for the Corporation's Brandywine Creek hydroelectric project cannot be reasonably estimated due to the long service life of these assets and the unlikelihood that this site would ever be abandoned due to the renewable nature of the electricity being generated.

Stock Based Compensation

The Corporation has a stock-based compensation plan whereby stock options are granted in accordance with the policies of regulatory authorities. The fair value of all share purchase options granted to employees is expensed over their vesting period with a corresponding increase to contributed surplus. Compensation for non-employees is re-measured at each balance sheet date until the earlier of the vesting date or the date of completion of the service. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital. The Corporation uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

Future Income Taxes

The Corporation follows the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective income tax bases, using enacted income tax rates expected to apply in the period in which those temporary differences are expected to be recovered or settled. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs. A valuation allowance is recorded if the realization of future income tax assets is not considered more likely than not.

ADOPTION OF NEW ACCOUNTING STANDARDS

International Financial Reporting Standards ("IFRS")

Canadian publicly listed enterprises will be required to adopt IFRS in replacement of Canadian generally accepted accounting principles ("GAAP") on January 1, 2011. This transition will require the Corporation to present its financial statements under IFRS starting with its first quarterly report dated March 31, 2011, with restated comparative information for the comparative quarter ended March 31, 2010, also under IFRS. The conversion to IFRS will impact the Corporation's accounting policies, information technology processes and financial reporting systems, including internal controls over financial reporting, data systems and disclosure controls and procedures. The transition may also impact certain business processes, accounting for contractual agreements, debt covenants and compensation arrangements.

The Corporation is assessing the potential impacts of this changeover and has developed its implementation plan. At this time, the impact on the Corporation's future financial position and results of operations cannot be reasonably determined.

The Corporation has established a project team that reports to the Audit Committee to ensure a seamless transition to IFRS. The project team has identified four phases in its implementation plan:

- Phase 1 - Impact assessment
- Phase 2 - Detailed planning
- Phase 3 - Implementation
- Phase 4 - Post implementation review

Phase I - Impact assessment

The impact assessment included a diagnostic of the major differences between current Canadian GAAP and IFRS that are expected to impact the Corporation's financial statements. This diagnostic has identified and ranked the key GAAP differences applicable to the Corporation and assessed the potential impact on the financial statements, note disclosures and exemptions available on transition. A detailed project plan with timelines and key milestones is being completed by the project team and will be continually updated to take into account any timetable changes as required. At this time, key standards which are expected to affect the Corporation include: accounting for property, plant, and equipment and property under development (IAS 16), related party transactions (IAS 24), income taxes (IAS 12), leases (IAS 17), and stock-based compensation (IFRS 2). The overall adoption of IFRS is governed by IFRS I, "First-time adoption of International Financial Reporting Standards".

Phase 2 - Detailed planning

Detailed planning requires analysis of each of the key IFRS conversion topics identified, while continually monitoring any implemented or proposed changes to IFRS. Many IFRS policies in effect at the date of this report are expected to change by the time the Corporation adopts IFRS on January 1, 2011. An analysis will be completed for all accounting policies as part of the conversion process, according to IFRS I.

Phase 3 - Implementation

During the implementation phase, activities will include implementing the required changes to accounting and operational information systems, disclosure controls and internal controls over financial reporting and determining accounting policies and additional training necessary for employees. The majority of this phase will be executed over the first half of 2010, preparing the Corporation for the date of adoption on January 1, 2011.

Phase 4 - Post implementation review

The post implementation review phase will involve a continuation of the monitoring of changes in IFRS and associated interpretation bulletins.

Timing

The table below summarizes the estimated timing of activities related to the Corporation's transition to IFRS:

Activity	Estimated Timing
Initial analysis of key areas for which changes to accounting policies may be required	Completed
Detailed analysis of all relevant IFRS requirements and identification of areas requiring accounting policy changes or those with accounting policy alternatives	Q1 2010
Assessment of first-time adoption (IFRS 1) requirements and alternatives	Q1 2010
Final determination of changes to accounting policies and choices to be made with respect to first-time adoption alternatives	Q3-Q4 2010
Resolution of the accounting policy change implications on information technology processes, internal controls and contractual arrangements	Q3-Q4 2010
Management and employee education and training	Continuous
Quantification of the Financial Statement Impact of changes in accounting policies	Q3-Q4 2010

Accountability

The Corporation's Audit Committee is overseeing the IFRS conversion project and holds management accountable for a successful IFRS transition. The Corporation will continue to communicate progress of its IFRS conversion in future quarterly reports.

Business combinations, consolidated financial statements and non-controlling interests

In January 2009, the AcSB issued CICA Handbook Sections 1582 – Business Combinations, 1601 – Consolidated Financial Statements and Section 1602 – Non-controlling Interests. Section 1582 is effective for business combinations subsequent to January 1, 2011. This Standard was issued to align Canadian GAAP with IFRS. The Standard requires additional use of fair value measurements, recognition of additional assets and liabilities and increases disclosure. Adoption of this Standard will have a material effect on the method of accounting for business combinations in future periods. Upon adoption of Section 1582, entities are required to adopt Sections 1601 – Consolidated Financial Statements and 1602 – Non-controlling interest. These two standards require a change to be presented as part of shareholder's equity on the balance sheet. The income statement of the controlling parent will require all of the subsidiaries results and present an allocation between the controlling interest and the non-controlling interest. Adoption of Section 1582 is applied prospectively and Sections 1601 and 1602 are applied retroactively.

Goodwill and intangible assets

The CICA has issued Section 3064 – Goodwill and Intangible Assets to replace Section 3062 – Goodwill and Other Intangible Assets. Section 3064 gives guidance on the recognition of intangible assets as well as the recognition and measurement of development expenditures. Section 3064 – Goodwill and Intangible Assets is effective for annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. These changes are effective for the Corporation on January 1, 2009 and its implementation is not expected to have a material impact on the financial position or results of operations.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value of financial instruments

The fair value of financial instruments is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted market prices, as appropriate, in the most advantageous market for that instrument to which the Corporation has immediate access. Where quoted market prices are not available, the Corporation uses the closing price of the most recent transaction for that instrument. In the absence of an active market, fair values are determined based on prevailing market rates for instruments with similar characteristics.

The Corporation designated cash, restricted cash and marketable securities as held-for-trading assets, measured at fair value. Amounts receivable are measured at amortized cost. Accounts payable and accrued liabilities and long-term debt are designated as other financial liabilities and measured at amortized cost. Management did not identify any material embedded derivatives, which require separate recognition and measurement under the new accounting standards. The Corporation had neither available-for-sale, nor held-to-maturity instruments during the period ended September 30, 2009.

Risk management

The Board of Directors has the overall responsibility for the establishment and oversight of the Corporation's risk management. Senior management is responsible for developing and monitoring compliance with the Board's risk management objectives. Derivative financial instruments are not used by the Corporation.

In the normal course of operations, the Corporation is exposed to various risks such as commodity, interest rate, credit, liquidity, and operating risk. To manage these risks, management determines what activities must be undertaken to minimize potential exposure to risks. The objectives of the Corporation to managing risk are to:

- Maintain sound financial condition;
- Finance operations; and
- Ensure liquidity to all operations.

To satisfy these objectives, the Corporation has adopted policies that require management to:

- Prepare budget documents at prevailing market rates to ensure clear, corporate alignment to performance management and achievement of targets;
- Recognize and observe the extent of operating risk within the business;
- Identify the magnitude of the impact of market risk factors on the overall risk of the business and take advantage of natural risk reductions that arise from these relationships.

Development Risk

According to the Independent Power Producers Association for British Columbia, a run-of-river project in BC requires over 50 permits, licences and approvals and reviews from 14 different government agencies before it can be built. Such a regulatory environment creates additional challenges and may result in unanticipated delays or material alterations in project outcomes, including cancellation. There is no guarantee that all projects within the Corporation's development portfolio will come to fruition.

Electricity commodity risk

The Corporation manages the risk of fluctuating commodity prices by entering into long-term, 20-year fixed price Electricity Purchase Agreements with BC Hydro for the sale of its production.

Interest rate risk

The Corporation's long term debt bears interest at fixed rates, thus mitigating the impact of fluctuations in interest rates.

Credit risk

Credit risk is the risk of loss if counterparties do not fulfil their contractual obligations and arises principally from trade receivables. The maximum exposure to credit risk is the carrying amount of amounts receivable principally from BC Hydro for the sale of production from the Corporation's Brandywine Creek facility. BC Hydro is a rated, creditworthy counterparty and amounts receivable are current as of September 30, 2009.

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. The Corporation mitigates this risk through actively managing its capital, which it defines as shareholders' equity, long term debt, net of cash, cash equivalents and marketable securities. Management of liquidity risk over the short and longer term includes continual monitoring of forecasted and actual cash flows to ensure sufficient liquidity to meet financial obligations when due and maintaining a flexible capital management structure. The Corporation strives to balance the proportion of debt and equity in its capital structure given its development assets and planned investment opportunities.

The current volatile economic and financial conditions have impacted the availability of financing for the Corporation's development initiatives. Furthermore, the associated terms have changed to reflect the increased risk. It is the Corporation's view that project financing will be available for the development projects included in the Corporation's bids in response to the BC Hydro calls, albeit under more stringent financing conditions. The credit quality of long-term Energy Purchase Agreements with BC Hydro, along with the nature of the Corporation's development projects, facilitates completion of financing in these circumstances.

The ability of the Brandywine Creek power plant to generate the maximum amount of power is a determinant of the Corporation's profitability. Regular preventative maintenance programs and insurance mitigate the risk of potential equipment failure and the consequent loss of revenue. The Corporation has no obligation under its contract to deliver minimum levels of power. Any reduction in the volume of power delivered will directly reduce the amount of power revenue received by the Corporation.

CONTROLS, PROCEDURES, AND CERTIFICATIONS

Management is committed to delivering timely and accurate disclosure of all material information. Disclosure controls and procedures ensure that reporting requirements are satisfied and that material information is disclosed in a timely manner. Due to the limitation on the ability of the officers to design and implement cost-effective policies for disclosure controls and procedures and internal control over financial reporting, the officers are not making representations that such controls and procedures would identify and allow for reporting material information on a timely basis, nor are they representing that such procedures are in place that provide reasonable assurance regarding the reliability of financial reporting. However, the CEO and CFO individually have certified that after reviewing the annual filing of the Corporation, there are no material misstatements or omissions, and the filing materially presents the financial position and results of operations and cash flows for the year ended December 31, 2009, and all material subsequent activity up to April 29, 2010.

OUTSTANDING SHARE DATA

Total issued common shares at December 31, 2009	86,202,721
Total issued common shares at April 30, 2010	86,252,721
Outstanding warrants	2,950,000
Outstanding share options	7,170,000
Total fully diluted common shares at April 30, 2010	96,372,721

SUBSEQUENT EVENT

Subsequent to year end, on March 31, 2010, BC Hydro announced that Run of River Power Inc. was selected for an award of an EPA for the 25 MW Mamquam Power Project.