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RUN OF RIVER POWER INC.

Consolidated Financial Statements
December 31, 2009 and 2008

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AUDITORS' REPORT

To the Shareholders of
Run of River Power Inc.

We have audited the consolidated balance sheets of Run of River Power Inc. as at December 31, 2009 and 2008 and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "BDO Canada LLP"

Chartered Accountants

Vancouver, Canada
April 28, 2010

RUN OF RIVER POWER INC.
Consolidated Balance Sheets
As at December 31, 2009 and 2008

		2009		2008
Assets				
Current				
Cash	**$**	**2,634,183**	$	875,745
Restricted cash (Note 4)		**636,121**		589,137
Marketable securities		**-**		2,576,725
Amounts receivable (Note 5)		**96,733**		91,071
Due from related parties (Note 9)		**113,962**		105,270
GST receivable		**513,081**		421,981
Prepaid expenses		**114,215**		251,877
		4,108,295		4,911,806
Property, plant and equipment, net (Note 6)		**16,062,852**		16,562,292
Projects under development (Notes 3 and 7)		**12,467,751**		10,484,023
Future income tax assets (Note 15)		**511,550**		380,469
Licenses and security deposit (Note 8)		**84,676**		82,945
	$	**33,235,124**	$	32,421,535
Liabilities				
Current				
Accounts payable and accrued liabilities (Note 9)	**$**	**315,788**	$	461,104
Current portion of long-term debt (Note 10)		**441,704**		414,680
		757,492		875,784
Long-term debt (Note 10)		**10,707,270**		11,127,805
Future income tax liabilities (Notes 3 and 15)		**589,232**		589,232
		12,053,994		12,592,821
Shareholders' Equity				
Share capital (Note 11)		**26,059,672**		22,766,588
Contributed surplus (Note 11)		**3,755,453**		3,620,960
Deficit		**(8,633,995)**		(6,558,834)
		21,181,130		19,828,714
Subsequent events (Notes 10, 16 and 19)				
	$	**33,235,124**	$	32,421,535

Commitments – Notes 10, 11, and 16

On behalf of the board:

"R.G. "Jako" Krushnisky" Director *"Richard Hopp"* Director

The accompanying notes are an integral part of these financial statements

RUN OF RIVER POWER INC.
Consolidated Statements of Operations and Deficit
Years Ended December 31, 2009 and 2008

		2009		2008
Revenues				
Electricity sales	**$**	**1,370,869**	$	1,681,459
Royalties		**(13,709)**		(16,815)
		1,357,160		1,664,644
Expenses				
Plant operations		**651,695**		635,956
Depreciation and amortization		**642,782**		627,877
General and administration		**1,562,614**		1,842,825
		2,857,091		3,106,658
Loss before the following		**(1,499,931)**		(1,442,014)
Interest on long-term debt		**732,855**		758,225
Amortization of deferred financing charges		**21,169**		21,879
Interest and investment income		**(47,713)**		(141,328)
Loss before income taxes		**(2,206,242)**		(2,080,790)
Future income tax recovery (Note 15)		**131,081**		59,391
Net loss and comprehensive loss for the year		**(2,075,161)**		(2,021,399)
Deficit, beginning of year		**(6,558,834)**		(4,537,435)
Deficit, end of year	**$**	**(8,633,995)**	$	(6,558,834)
Basic and diluted loss per share	**$**	**(0.03)**	$	(0.03)
Weighted average number of shares		**68,267,757**		63,911,312

The accompanying notes are an integral part of these financial statements

RUN OF RIVER POWER INC.
Consolidated Statements of Cash Flows
Years Ended December 31, 2009 and 2008

		2009		2008
Cash flows from (used in) operating activities				
Net loss for the year	**$**	**(2,075,161)**	$	(2,021,399)
Add (deduct) items not affecting cash:				
Depreciation and amortization		**663,951**		649,756
Stock based compensation		**68,330**		240,514
Unrealized loss on investment in marketable securities		**-**		80,790
Future income tax recovery		**(131,081)**		(59,391)
		(1,473,961)		(1,109,730)
Net changes in non-cash working capital items related to operations:				
Amounts receivable		**(5,662)**		71,370
GST receivable		**(91,100)**		(180,902)
Prepaid expenses		**137,662**		(97,738)
Due from related parties		**(8,692)**		(8,692)
Accounts payable and accrued liabilities		**42,218**		(80,533)
Net cash used in operating activities		**(1,399,535)**		(1,406,225)
Cash flows from (used in) investing activities				
Increase in restricted cash		**(46,984)**		(61,368)
Decrease in marketable securities		**2,576,725**		2,938,028
Increase in projects under development		**(2,114,947)**		(3,703,702)
Property, plant and equipment expenditures		**(133,494)**		(98,760)
Increase in licenses and security deposit		**(1,731)**		(782)
Net cash from (used in) investing activities		**279,569**		(926,584)
Cash flows from (used in) financing activities				
Issuance of shares - net of issue costs		**3,293,084**		-
Repayment of long term debt		**(414,680)**		(389,308)
Net cash from (used in) financing activities		**2,878,404**		(389,308)
Change in cash		**1,758,438**		(2,722,117)
Cash, beginning of year		**875,745**		3,597,862
Cash, end of year	**$**	**2,634,183**	$	875,745

Supplemental Disclosures with Respect to Cash Payments (Note 14)

1. Nature of Operations

Run of River Power Inc. (the "Company") was incorporated on November 26, 1999 as Healey Capital Corp. pursuant to the provisions of the Alberta Business Corporations Act ("ABCA"). The articles of Healey were amended on February 25, 2000 to remove the private company provisions and the restrictions on resale. On June 9, 2005 the Company changed its name to Run of River Power Inc. On September 13, 2006, the Company changed its domicile from Alberta to British Columbia.

The Company consolidated the accounts of its nine wholly owned subsidiaries: 1554675 Ontario Limited, Crawford Energy Corp., Jascott Holdings Corp. ("Jascott"), Northwest Cascade Power Ltd., Raffuse Energy Corporation, Rockford Energy Corporation ("Rockford"), Sea to Sky Power Corporation, Skookum Energy Corp. and Western Biomass Power Corp. and its 80% owned subsidiary Pacific Northwest Biomass Corporation (see Note 3).

The Company's main activity of independent power generation commenced on June 9, 2005 with the acquisition of Rockford. Rockford had developed a seven-megawatt hydroelectric facility on Brandywine Creek near Whistler, B.C. (the "Project"). The power output from the Brandywine Project is sold under an Electricity Purchase Agreement with BC Hydro. Under the terms of the Electricity Purchase Agreement, BC Hydro has agreed to purchase all of the plant's output for 20 years from the commercial operation date. The Company is actively developing other projects in hydroelectricity and biomass power generation.

2. Significant Accounting Policies

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada and are stated in Canadian dollars. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates, which have been made using careful judgement. In the opinion of management, these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

a) Principle of Consolidation

These consolidated financial statements include the accounts of Run of River Power Inc. and its wholly owned and controlled subsidiaries. All inter-company transactions and balances have been eliminated upon consolidation.

b) New Accounting Standards

i) International Financial Reporting Standards

In March 2009, The Canadian Accounting Standards Board ("AcSB") reconfirmed that Canadian GAAP for publicly accountable enterprises will be converted to International Financial Reporting Standards ("IFRS") on January 1, 2011. This change in GAAP will be effective for years beginning January 1, 2011. The Company has commenced planning for the implementation of IFRS. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences related to recognition, measurement, and disclosures. The Company has performed a preliminary assessment of the effort required to achieve IFRS compliance and the potential impact on the Company's financial statements. While the effects of IFRS have yet to be fully determined, the Company has identified a number of key areas which are likely to be impacted by changes in accounting standards, including: property, plant and equipment, projects under development, lease, related party transactions, share-based compensation and accounting for income taxes.

2. Significant Accounting Policies – (cont'd)

b) New Accounting Standards – (continued)

ii) 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 increased 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 Interests. These two standards require a change to be presented as part of shareholders' equity on the balance sheet. The income statement of the controlling parent will include 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.

iii) 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 internally developed assets. 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. Theses changes are effective on January 1, 2009 and implementation did not have a material impact on the Company's financial position or results of operations.

c) Use of Estimates

The preparation of these 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 asset retirement obligations, useful life and salvage values of property, plant and equipment, impairment of projects under development and income taxes.

d) Financial Instruments

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities" as defined by the accounting standard. Financial assets and financial liabilities "held-for-trading" are measured at fair value with changes in those fair values recognized in net income. Financial assets "available-for-sale" are measured at fair value, with changes in those fair values recognized in Other Comprehensive Income ("OCI"). Financial assets "held-to-maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization.

2. Significant Accounting Policies – (cont'd)

d) Financial Instruments – (cont'd)

The Company designated cash, restricted cash and marketable securities as held for trading assets, measured at fair value. Amounts receivable and due from related parties are designated as loans and receivables and 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. The Company had neither available-for-sale, nor held-to-maturity instruments during the years ended December 31, 2009 and 2008.

In 2009, the CICA amended Section 3862, "Amendment to Financial Instruments – Disclosures" to require disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data

The Company categorizes its financial instruments which are measured at fair value as level 1.

Transaction costs are incremental costs directly attributable to the acquisition, issue or disposal of a financial instrument. The Company offsets long-term debt transaction costs against the associated debt and amortizes these costs using the effective interest rate method.

e) Property, Plant and Equipment

Property, plant and equipment are recorded at cost. The Company capitalizes costs which result in improvements to output or reductions in operating costs. Expenditures for maintenance and repairs are charged to income.

The costs of the power generating assets are depreciated over the service life of the assets on a straight line basis. Service life of the assets varies from 20 to 40 years.

The Company amortizes its other equipment over their estimated useful lives using the following methods:

- Leasehold improvements	2 years straight-line
- Office equipment	45% declining balance
- Vehicles	30% declining balance
- Furniture and fixtures	30% declining balance
- Other equipment	45% declining balance

2. Significant Accounting Policies – (cont'd)

f) Projects under Development

The Company accumulates costs associated with its hydroelectric and biomass power projects. Costs associated with successful projects are reclassified to property, plant and equipment and depreciated over the useful life of the projects. Costs of unsuccessful projects are expensed in the year the project is abandoned or when recovery of such costs can no longer be reasonably regarded as assured.

Recovery of power project development costs is dependent upon the successful completion of the projects. The success of the projects is dependent upon receiving the necessary water and other licenses, being awarded an energy purchase agreement from BC Hydro, the ability of the Company to obtain the 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.

g) Licences

Licences are recorded at cost. Those licenses with an indefinite life are not amortized.

h) Impairment of Long-lived Assets

Canadian generally accepted accounting principles require that long-lived assets to be held and used by the Company be 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 that an entity expects to hold and use 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. Management believes there has been no impairment of the Company's long-lived assets as at December 31, 2009 and 2008.

i) Asset Retirement Obligations

The Company 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 accretion expense, which increases the asset retirement obligations due to the passage of time, is included in plant operations in the Statements of Operations and Deficit. Incurred asset retirement costs will be recorded as a reduction against the asset retirement obligation.

The asset retirement obligation for the Company'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.

j) Deferred Financing Charges

Financing charges incurred on long term debt are offset against long-term debt and amortized using the effective interest method.

2. Significant Accounting Policies – (cont'd)

k) Income Taxes

The Company 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.

l) Revenue Recognition

The Company recognizes revenue upon metered delivery of the hydroelectric power to the customer and when collection is reasonably assured.

m) Stock-Based Compensation

The Company 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 Company 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.

n) Basic and Diluted Loss Per Share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method. Fully diluted amounts are not presented when the effect of the computations are anti-dilutive due to losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share.

3. Business Acquisitions

Western Biomass Power Corp.

On February 1, 2008, the Company completed the acquisition of all of the outstanding shares of Western Biomass Power Corp. (“Western Biomass”). A total of 3,780,301 shares of the Company were issued to the former shareholders of Western Biomass, 3,565,748 of which were held in escrow to be released in two stages. Holders of the escrowed shares are not entitled to exercise their voting rights in respect of the escrowed shares until such time as the shares are released from escrow. In June 2008, 2,305,654 of the escrowed shares were released upon the delivery of a favourable feasibility study in respect of the Tsilhqot’in Biomass Project and the execution of a definitive joint venture agreement between Western Biomass and the Tsilhqot’in National Government (“TNG”). A further 1,260,094 escrowed shares would be released from escrow upon the execution of a long term electricity purchase agreement (“EPA”) between BC Hydro, Western Biomass and the TNG. In the event that this condition would not be met by December 31, 2009, the shares remaining in escrow would be cancelled and returned to treasury. Due to delays in BC Hydro’s EPA process, the Company agreed in September 2009 to extend the deadline to December 31, 2010 for 50% of the escrowed shares. The remaining 50% have been cancelled and returned to treasury.

The Company cannot reasonably determine the outcome of this contingency and accordingly the value attributed to the shares remaining in escrow has not been recognized. In the event that they are released, the cost of the projects under development and related future income tax liabilities will be increased by $349,080 and $90,761 respectively and $258,320 will be recorded in share capital. All shares issued to the former Western Biomass shareholders were subject to a hold period which expired on June 1, 2008. 24.2% of the issued shares of Western Biomass were owned by a director and by an officer of the Company. As part of the acquisition, the Company also advanced $192,814 to Western Biomass.

The acquisition (referred to as the Tsilhqot’in Biomass Project) has been accounted for using the asset purchase method. The results of Western Biomass have been consolidated from February 1, 2008 and are included in the Company's results of operations.

The allocation of the purchase price to the net assets acquired is as follows:

Projects under development	$	1,589,258
Equipment		1,016
Non-cash working capital deficiency		(186,888)
Future income tax liabilities		(370,102)
	$	1,033,284

Consideration (reflecting cancellation of escrow shares):		
Common shares – 3,150,254 shares valued at $0.41 per share	$	1,291,604
Less shares held in escrow – 630,047 shares valued at $0.41 per share		(258,320)
	$	1,033,284

3. Business Acquisitions – (cont'd)

Pacific Northwest Biomass Corp.

In September 2008, the Company completed the acquisition of 80% of the issued and outstanding shares of Pacific Northwest Biomass Corp. ("PNBC"). A shareholder and director of the Corporation was also a 25% shareholder and director of PNBC. In connection with the acquisition, a total of 4,000,000 shares of the Company were issued to the shareholders of PNBC. All shares issued to the PNBC shareholders were subject to a hold period which expired on January 17, 2009. The shares were held in escrow to be released in two stages as follows:

i) 2,000,000 shares upon receipt of both a final independent engineering study which confirmed the economic feasibility and an independent consulting report which confirmed the adequacy of the fibre supply of the power plant. These shares have been released from escrow.

ii) provided the first condition is met by September 30, 2008, 2,000,000 shares upon execution of an EPA with BC Hydro in respect of the plant by September 30, 2009.

In the event that either of these conditions is not met, all shares held in escrow at the time shall be cancelled and returned to the Company's treasury. Due to delays in BC Hydro's EPA process, the Company agreed in September 2009 to extend the deadline to December 31, 2010 for 50% of the escrowed shares. The remaining 50% have been cancelled and returned to treasury.

The Company cannot reasonably determine the outcome of this contingency and accordingly the value attributed to the shares remaining in escrow has not been recognized. In the event that they are released, the cost of the projects under development and related future income tax liabilities will be increased by $283,784 and $73,784 respectively and $210,000 will be recorded in share capital.

The acquisition of PNBC (referred to as the Suskwa Biomass Project) is accounted for using the asset purchase method. The results of PNBC have been consolidated from September 1, 2008 and are included in the Company's results of operations.

The allocation of the purchase price to the net assets acquired is as follows:

Projects under development	$	842,809
Accounts payable and accrued liabilities		(203,679)
Future income tax liabilities		(219,130)
	$	420,000

Consideration (reflecting cancellation of escrow shares):		
Common shares – 3,000,000 shares valued at $0.21 per share	$	630,000
Less shares held in escrow – 1,000,000 shares valued at $0.21 per share		(210,000)
	$	420,000

4. Restricted Cash

Restricted cash is comprised of the following:

		2009		2008
Major Maintenance Reserve	$	200,642	$	155,563
Debt Service Reserve		435,479		433,574
	$	636,121	$	589,137

Interest received on funds held in the Major Maintenance Reserve account and the Debt Service Reserve account was added to the respective reserve accounts. In the year ended December 31, 2009, the Major Maintenance Reserve was supplemented by a total of $44,365 (2008 - $43,073) pursuant to the agreement with the lender (see Note 10).

5. Amounts Receivable

Amounts receivable include the following:

		2009		2008
Accounts receivable	$	78,771	$	88,977
Insurance receivable		17,681		-
Interest receivable		281		2,094
	$	96,733	$	91,071

6. Property, Plant and Equipment

	December 31, 2009					
		Cost		Accumulated Amortization		Net
Brandywine Creek Project						
- Penstock	$	7,885,747	$	872,110	$	7,013,637
- Powerhouse, turbines and related equipment		6,938,172		1,246,012		5,692,160
- Intake and diversion weir		2,798,402		308,658		2,489,744
- Interconnection costs		689,289		155,090		534,199
- Transmission line		200,737		45,168		155,569
- Land		24,979		-		24,979
		18,537,326		2,627,038		15,910,288
Land		78,439		-		78,439
Leasehold Improvements		80,482		71,420		9,062
Office Equipment		71,608		50,331		21,277
Vehicles		56,797		32,444		24,353
Other Equipment		21,314		18,566		2,748
Furniture and Fixtures		32,061		15,376		16,685
		340,701		188,137		152,564
	$	18,878,027	$	2,815,175	$	16,062,852

6. Property, Plant and Equipment – (cont'd)

	December 31, 2008		
	Cost	Accumulated Amortization	Net
Brandywine Creek Project			
- Penstock	$ 7,885,747	$ 674,967	$ 7,210,780
- Powerhouse, turbines and related equipment	6,938,172	968,485	5,969,687
- Intake and diversion weir	2,738,274	239,451	2,498,823
- Interconnection costs	689,289	120,626	568,663
- Transmission line	200,737	35,131	165,606
- Land	24,979	-	24,979
	18,477,198	2,038,660	16,438,538
Leasehold Improvements	73,193	45,027	28,166
Office Equipment	69,746	33,683	36,063
Vehicles	56,797	22,008	34,789
Other Equipment	21,314	16,317	4,997
Furniture and Fixtures	28,072	8,333	19,739
	249,122	125,368	123,754
	$ 18,726,320	$ 2,164,028	$ 16,562,292

7. Projects under Development

At December 31, 2009, projects under development represent costs incurred for additional hydroelectric and biomass sites as well as project development expenses that have been capitalized.

Cumulative project costs incurred by the Company are as follows:

	December 31, 2008 Net Book Value	2009 Net Expenditure	December 31, 2009 Net Book Value
Hydroelectric Projects			
Upper Pitt River Cluster	$ 3,999,741	$ 548,839	$ 4,548,580
Mamquam Cluster	2,325,798	409,606	2,735,404
Other	624,763	103,672	728,435
	6,950,302	1,062,117	8,012,419
Biomass Projects			
Tsilhqot'in Power Project	2,350,122	307,315	2,657,437
Suskwa Power Project	1,183,599	614,296	1,797,895
	3,533,721	921,611	4,455,332
	$ 10,484,023	$ 1,983,728	$ 12,467,751

7. Projects under Development – (cont'd)

	December 31, 2007 Net Book Value	2008 Net Expenditure	December 31, 2008 Net Book Value
Hydroelectric Projects			
Upper Pitt River Cluster	$ 2,491,300	$ 1,508,441	$ 3,999,741
Mamquam Cluster	1,208,083	1,117,715	2,325,798
Other	394,078	230,685	624,763
	4,093,461	2,856,841	6,950,302
Biomass Projects			
Tsilhqot'in Power Project	-	2,350,122	2,350,122
Suskwa Power Project	-	1,183,599	1,183,599
	-	3,533,721	3,533,721
	$ 4,093,461	$ 6,390,562	$ 10,484,023

During the year ended December 31, 2009, $397,754 (2008 – $409,813) of management wages and salaries and $66,163 (2008 - $244,940) of non-cash stock based compensation directly attributable to the projects were capitalized and included in the costs of projects under development.

Accounts payable and accrued liabilities at December 31, 2009 include $43,655 (December 31, 2008 - $249,404) related to projects under development..

8. Licenses and Security Deposit

	2009	2008
Licenses	$ 54,375	$ 54,375
Security deposit	27,019	26,788
Other	3,282	1,782
	$ 84,676	$ 82,945

9. Related Party Transactions

At December 31, 2009, the Company 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 Company 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 Company principally for 2009 directors' fees.

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

During the year the Company 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 (Note 3).

These charges were measured by the exchange amount, which is the amount agreed upon by the transacting parties in the normal course of operations.

10. Long-Term Debt

	2009	2008
Loans payable	$ 11,350,695	$ 11,765,375
Less deferred financing costs	(201,721)	(222,890)
	11,148,974	11,542,485
Less current portion	(441,704)	(414,680)
	$ 10,707,270	$ 11,127,805

On August 2, 2005 the Company borrowed $13,000,000 pursuant to two agreements providing for a 20 year term of repayment. The loan is collateralized by a first charge over the assets of the Company, bears interest at 6.33% per annum and requires monthly payments of $95,628 for the 20 year term.

The Company set aside restricted cash of $382,511 as a debt service reserve and $40,000 in respect of a major maintenance reserve. The major maintenance reserve requires an annual increase of 3% of the previous year's total for each elapsed year. These amounts are deposited every year in the Major Maintenance Escrow Account, to be used by the Company solely to fund major maintenance costs. Under the terms of the Loan Agreements, the payments are made in equal quarterly instalments. (Note 4)

10. Long-Term Debt – (cont'd)

At December 31, 2009, long term debt repayments over the next five years are as follows:

2010	$	441,704
2011		470,489
2012		501,150
2013		533,810
2014		568,598
Remaining		8,834,944
	$	11,350,695

At December 31, 2009 and for three of four quarters in 2009, the Company's subsidiary, Rockford Energy Corporation, was not in compliance with its 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 1.) increase of the interest rate to 7.5% effective April 30, 2010, 2.) increase of the debt service reserve to 9 months from the present level of 4 months, funded over a six month period and 3.) monthly cash sweep of any excess cash after debt service. Should the Company 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 Company is reviewing ways to increase revenues that will facilitate achieving the coverage ratio of 1.25:1.

The Company 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.

11. Share Capital

Authorized:

Unlimited number of common voting shares without nominal or par value
Unlimited number of preferred shares without par value issued in one or more series

a) Common shares issued

In February, 2008, with respect to the acquisition of Western Biomass, the Company issued 3,780,301 common shares at $0.41 per share, of which 630,047 shares in escrow were cancelled during the year pursuant to an amendment to the Escrow Agreement and 630,047 shares are held in escrow at December 31, 2009 (see Note 3).

In September 2008, with respect to the acquisition of PNBC, the Company issued 4,000,000 shares at $0.21 per share, of which 1,000,000 shares in escrow were cancelled during the year pursuant to an amendment to the Escrow Agreement and 1,000,000 shares are held in escrow at December 31, 2009 (see Note 3).

The value of the shares issued and held in escrow will not be recognized until such time as the outcome of the conditions for their release can be reasonably determined (see Note 3).

11. Share Capital – (cont'd)

a) Common shares issued – (cont'd)

In September 2009, the Company issued 5,900,000 units at a price of $0.17 per unit pursuant to a private placement. Each unit consists of one common share and one-half of a share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at a price of $0.26 until September 15, 2011.

In December 2009, the Company issued 12,200,260 shares at a price of $0.19 per share pursuant to a private placement.

Shares issued and outstanding:

	Number	Amount
Balance – December 31, 2007	61,952,207	$ 21,313,304
Issued on business acquisition - Western Biomass – Note 3	3,780,301	1,033,284
Issued on business acquisition – PNBC – Note 3	4,000,000	420,000
Balance – December 31, 2008	69,732,508	22,766,588
Issued pursuant to private placement	5,900,000	1,003,000
Share issue costs		(5,765)
Cancelled pursuant to amendment to Escrow Agreement – Note 3	(630,047)	-
Cancelled pursuant to amendment to Escrow Agreement – Note 3	(1,000,000)	-
Issued pursuant to private placement	12,200,260	2,318,050
Share issue costs		(22,201)
Balance – December 31, 2009	86,202,721	$ 26,059,672

b) Commitments

Warrants

A summary of warrants outstanding at December 31, 2009 is as follows:

	Number	Weighted Average Exercise Price
Outstanding at December 31, 2007	36,210,000	$0.58
Expired	(4,450,000)	$0.49
Outstanding at December 31, 2008	31,760,000	$0.59
Expired	(31,760,000)	$0.59
Issued	2,950,000	$0.26
Outstanding at December 31, 2009 and expiring on September 15, 2011	2,950,000	$0.26

11. Share Capital – (cont'd)

b) Commitments – (cont'd)

Stock-Based Compensation Plan

The Company has established a formal share purchase option plan in accordance with the policies of the TSX-V. These options are granted with an exercise price equal to the market price of the Company's stock on the date of the grant. The options are for a maximum term of five years.

In February 2008, the Company granted options to directors and employees to purchase 550,000 shares of the Company at an exercise price of $0.41 per share. One third of the options vested immediately; one third becomes vested on each of the first and second anniversaries of the grant date.

In June 2008, the Company granted options to three consultants to purchase 150,000 shares of the Company at an exercise price of $0.32 per share. One third of the options vested immediately; one third becomes vested on each of the first and second anniversaries of the grant date.

In December 2008, the Company granted options to its employees to purchase 800,000 shares of the Company at an exercise price of $0.10 per share. One third of the options vested immediately; one third becomes vested on each of the first and second anniversaries of the grant date.

In April 2009, the Company granted options to its non-executive directors to purchase up to 200,000 shares of the Company at an exercise price of $0.10 per share. The options are exercisable for a period of five years. One third of the options vested immediately; one third becomes vested on each of the first and second anniversaries of the grant date.

A summary of the outstanding and exercisable share purchase options is as follows:

	Number	Weighted Average Exercise Price
Outstanding at December 31, 2007	4,370,000	$0.53
Granted	550,000	$0.41
Granted	150,000	$0.32
Granted	800,000	$0.10
Outstanding at December 31, 2008	5,870,000	$0.45
Granted	200,000	$0.10
Outstanding at December 31, 2009	6,070,000	$0.44
Exercisable at December 31, 2009	5,436,656	$0.47

11. Share Capital – (cont'd)

b) Commitments – (cont'd)

Stock-Based Compensation Plan - (cont'd)

At December 31, 2009, the Company has share purchase options outstanding entitling the holders thereof the right to purchase one common share for each option held as follows:

Number	Exercise Price	Expiry Date	Weighted average remaining contractual life (years)
25,000	$0.30	January 31, 2010	0.1
1,900,000	$0.60	June 9, 2010	0.4
200,000	$0.60	July 1, 2010	0.5
400,000	$0.40	June 22, 2011	1.5
570,000	$0.60	June 14, 2012	2.4
80,000	$0.65	July 19, 2012	2.6
1,195,000	$0.41	November 23, 2012	2.9
550,000	$0.41	February 15, 2013	3.2
150,000	$0.32	June 10, 2013	3.4
800,000	$0.10	December 10, 2013	3.9
200,000	$0.10	April 28, 2014	4.3
6,070,000			2.1

The weighted fair value of share purchase options granted in 2009 was $0.06 (2008 - $0.17) per option and was estimated on the grant date using the Black-Scholes option pricing model. The assumptions used in calculating fair value of options granted are as follows:

	2009	2008
Expected dividend yield	0.00%	0.00%
Expected volatility	117%	103%
Risk-free interest rate	1.69%	3.04%
Expected term in years	5 years	5 years

c) Dilutive Common Shares

For the year ended December 31, 2009, potentially dilutive common shares (relating to share purchase options and warrants outstanding and conditional shares held in escrow pursuant to the acquisition agreements) totaling 10,650,047 (2008 – 40,890,094) were not included in the computation of loss per share as the effect would be anti-dilutive.

11. Share Capital – (cont'd)

d) Contributed Surplus

The following table reconciles the Company's contributed surplus:

Balance – December 31, 2007	$	3,135,506
Options		485,454
Balance – December 31, 2008		3,620,960
Options		134,493
Balance – December 31, 2009	$	3,755,453

12. Capital Disclosures

The capital structure of the Company consists of shareholders' equity, long-term debt and cash and cash equivalents as noted below:

		2009		2008
Components of Capital:				
Shareholders' equity	$	21,181,130	$	19,828,714
Long – term debt		11,148,974		11,542,485
Less:				
Cash, cash equivalents and marketable securities		(3,270,304)		(4,041,607)
	$	29,059,800	$	27,329,592

The Company's objectives when managing capital are:

- to manage capital in a manner which balances the interest of equity and debt holders;
- to manage capital in a manner that will maintain compliance with its financial covenants; and
- to maintain a capital base so as to maintain investor, creditor and market confidence and to sustain future development.

The Company manages its capital structure as determined by management and approved by the board of directors. The Company's policy is to make adjustments to its capital structure based on changes in economic conditions and planned requirements. The Company 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 Company monitors capital using a Debt Service Coverage Ratio that has been externally imposed as part of the loan agreement. The Company is required to maintain a four quarter rolling average Debt Service Coverage Ratio not less than 1.00:1 (Note 10). This ratio is as follows:

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

12. Capital Disclosures – (cont'd)

At December 31, 2009, September 30, 2009, March 31, 2009 and December 31, 2008, the Debt Service Coverage Ratio was less than 1.00:1. Pursuant to the Loan Agreement, the Company has notified its lenders of this event of default and has received a waiver subsequent to each period.

There have been no changes to the Company's capital structure, objectives, policies and processes over the prior year.

13. Financial 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 Company has immediate access. Where quoted market prices are not available, the Company 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 Company designated cash, restricted cash and marketable securities as held for trading assets, measured at fair value. Changes in the fair value are recorded in net earnings. Amounts receivable and due from related parties 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. The Company had neither available-for-sale, nor held-to-maturity instruments during the year ended December 31, 2009.

The fair value of the current financial instruments approximates their carrying value as they are short term in nature or have interest at floating rates. The fair value of the long term debt also approximates its carrying value based on future cash flows discounted using the current market rate for similar instruments.

Financial risk management

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

- maintaining sound financial condition;
- financing operations; and
- ensuring liquidity to all operations.

In order to satisfy these objectives, the Company has adopted the following policies:

- 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.

13. Financial Risk Management – (cont'd)

Financial risk management – (cont'd)

There have been no changes in risks that have arisen or how the Company manages those risks from the prior period.

(i) Electricity commodity risk
The Company manages the risk of fluctuating commodity prices by entering into long term 20 year fixed price Electricity Purchase Agreements with B.C. Hydro for the sale of its production.

(ii) Interest rate risk
The Company's long term debt bears interest at fixed rates thus mitigating the impact of fluctuations in interest rates.

(iii) Credit risk
Credit risk is the risk of loss if counterparties do not fulfill 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 Company's Brandywine Creek facility. BC Hydro is a rated, credit worthy counterparty and amounts receivable are current as of December 31, 2009.

(iv) Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company 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 Company 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 Company's development initiatives. Furthermore, the associated terms have changed to reflect the increased risk. It is the Company's view that project financing will be available for the development projects bid into 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 Company's development projects facilitates completion of financing in these circumstances.

14. Cash Payments

The following cash payments have been made in the years ended December 31, 2009 and 2008:

	2009	2008
Interest	$ 732,855	$ 758,225
Taxes	Nil	Nil

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the cash flow statement. The following transactions have been excluded:

During the year ended December 31, 2008, with respect to the acquisition of Western Biomass, the Company issued 3,780,301 common shares at $0.41 per share, of which 630,047 shares are held in escrow at December 31, 2009 (see Note 3).

During the year ended December 31, 2008, with respect to the acquisition of PNBC, the Company issued 4,000,000 shares at $0.21 per share, of which 1,000,000 shares are held in escrow at December 31, 2009 (see Note 3).

During the year ended December 31, 2009, stock based compensation costs of $66,163 (2008 - $244,940) are capitalized in projects under development.

Accounts payable and accrued liabilities at December 31, 2009 include $43,655 (2008 - $249,404) related to projects under development and $18,215 (2008 – Nil) in connection with equipment acquisitions.

15. Future Income Taxes

Significant components of the Company's future income tax assets at December 31, 2009 and 2008, which result primarily from temporary differences in the recognition of expense items for financial and income tax reporting purposes, after applying enacted corporate income tax rates are as follows:

	2009	2008
Future income tax assets		
Non-capital loss carry-forwards	$ 2,329,279	$ 1,373,135
Temporary differences		
- capital assets	(453,915)	(37,126)
- share issue costs	119,466	238,342
- deferred finance charges	(51,443)	(42,955)
- donation	4,913	4,182
Canadian renewable and conservation expenditures	(242,453)	(61,130)
Valuation allowance for future income tax assets	(1,194,297)	(1,093,979)
Net future income tax assets	$ 511,550	$ 380,469
Net future income tax liabilities (Note 3)	$ 589,232	$ 589,232

15. Future Income Taxes – (Cont'd)

The Company has accumulated non-capital losses of $9,317,115 to December 31, 2009 for income tax purposes, which may be deducted in the calculation of taxable income in future years. These losses expire as follows:

2010	$	152,948
2014		63,171
2015		627,868
2026		999,364
2027		1,387,911
2028		4,103,826
2029		1,982,027
	$	9,317,115

The Company has also incurred Canadian Renewable and Conservation Expenditures of $9,399,779, which may be carried forward indefinitely and used to reduce certain taxable income of future years at various rates per year.

Total taxes are different from the amount computed using the statutory tax rates for the following reasons:

	2009	2008
Loss before income taxes	$ 2,206,242	$ 2,080,790
Statutory tax rates	30.00%	31.00%
Recovery of income taxes based on statutory income tax rates	$ 661,873	$ 645,045
Increase (decrease):		
Effect of statutory tax rate changes on future tax assets	(229,254)	(30,899)
Effect of changes in estimates	(165,042)	-
Effect of non-deductible items	(36,178)	(92,472)
Change in valuation allowance	(100,318)	(462,283)
Future income tax recovery	$ 131,081	$ 59,391

16. Commitments

Royalty

The Company has a commitment to pay to two First Nations Organizations a royalty calculated at 1% of the gross revenues resulting from project electricity production of up to 40.5 GWh at its Brandywine Creek facility.

Beginning on the sixteenth year of the 20 year contract with BC Hydro, the royalty will increase to 1.5%. For electricity production in excess of 40.5 GWh, the Company will pay the First Nations a royalty of 5%.

Consulting and Employment Contracts

The Company has entered into various consulting and employment agreements with officers and consultants of the Company whereby the Company has agreed to pay salaries and fees ranging from $5,000 to $13,583 per month with various effective terms. Maximum payments that can be projected with certainty total $665,000 for the 12 months ended December 31, 2010.

Lease Agreements

The Company occupies office space at two locations under leases which provide for future minimum rental payments of $44,233.

In 2008, the Company entered into an office equipment lease agreement with a term of 48 months. The lease will expire in April 2012. Minimum payments for the remaining term of the lease total $7,269.

Subsequent to the year-end, the Company entered into two lease contracts for office space commencing on March 1, 2010 and May 1, 2010 respectively. Each lease contract is for a term of three years. Minimum rental payments for the first year total $45,000 and will increase by 4 – 8% for the subsequent years.

17. Economic Dependence

The Company’s revenue is derived from a single source, BC Hydro, and as a result is dependent on the contract with BC Hydro for all its revenue.

18. Comparative Figures

Certain comparative figures for the year ended December 31, 2008 have been reclassified to conform to the current year’s presentation.

19. Subsequent Events

Subsequent to the year-end, the Company granted 925,000 options to employees and 250,000 options to non-executive directors in accordance with its approved option plan. The options are exercisable at $0.23 per share and are for a term of five years.

On March 31, 2010, the Company was selected for an award of an Electricity Purchase Agreement (EPA) with BC Hydro for the Mamquam Power Project. The Company will begin the development phase pending approval of the EPA by the BC Utilities Commission.