Consolidated Financial Statements

RUN OF RIVER POWER INC.

Six Months Ended June 30, 2008
(Unaudited)

RUN OF RIVER POWER INC.
Consolidated Financial Statements
June 30, 2008
(Unaudited)

The accompanying unaudited consolidated financial statements have been prepared by management and approved by the Audit Committee and Board of Directors. The Company's independent auditors have not performed a review of these financial statements.

RUN OF RIVER POWER INC.
Consolidated Balance Sheets
As at June 30, 2008 and December 31, 2007

		(Unaudited) June 30, 2008		(Audited) December 31, 2007
Assets				
Current				
Cash	**$**	**476,496**	$	3,597,862
Restricted cash (Note 5)		**559,308**		527,769
Marketable securities		**5,622,861**		5,595,543
Amounts receivable		**228,670**		162,441
Due from related parties (Note 9)		**292,608**		271,337
GST receivable		**330,988**		241,079
Prepaid expenses		**372,201**		154,139
		7,883,132		10,550,170
Property, plant and equipment, net (Note 6)		**16,835,253**		17,104,332
Projects under development (Notes 4 and 7)		**7,654,113**		4,093,461
Future income tax assets		**321,078**		321,078
Licenses and security deposit		**82,163**		82,163
	$	**32,775,739**	$	32,151,204
Liabilities				
Current				
Accounts payable and accrued liabilities (Note 9)	**$**	**517,239**	$	329,915
Current portion of long-term debt (Note 8)		**401,794**		389,308
		919,033		719,223
Long-term debt (Note 8)		**11,327,563**		11,520,606
		12,246,596		12,239,829
Shareholders' Equity				
Share capital (Notes 4 and 10)		**22,863,227**		21,313,304
Contributed surplus (Note 10)		**3,435,552**		3,135,506
Deficit		**(5,769,636)**		(4,537,435)
		20,529,143		19,911,375
	$	**32,775,739**	$	32,151,204

Commitments – Notes 8, 10 and 14
On behalf of the board:

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

RUN OF RIVER POWER INC.

Consolidated Statements of Operations and Deficit

Six Months Ended June 30, 2008 and 2007

(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	**2008**	2007
Revenues				
Electricity sales	**$ 476,731**	693,524	**$ 585,928**	$ 914,037
Royalties	**(4,767)**	(6,935)	**(5,859)**	(9,140)
	471,964	686,589	**580,069**	904,897
Expenses				
Plant operations	**214,929**	65,770	**319,995**	164,951
Depreciation and amortization	**158,032**	153,483	**314,084**	306,944
General and administration	**438,513**	495,366	**945,774**	759,826
	811,474	714,619	**1,579,853**	1,231,721
Loss before the following	**(339,510)**	(28,030)	**(999,784)**	(326,824)
Interest on long-term debt	**190,337**	196,243	**382,185**	393,906
Amortization of deferred financing charges	**5,491**	3,479	**11,025**	6,959
Interest income	**(70,853)**	(27,279)	**(160,793)**	(44,723)
Net loss for the period	**(464,485)**	(200,473)	**(1,232,201)**	(682,966)
Deficit, beginning of period	**(5,305,151)**	(3,650,103)	**(4,537,435)**	(3,167,610)
Deficit, end of period	**$ (5,769,636)**	$ (3,850,576)	**$ (5,769,636)**	$ (3,850,576)
Basic and diluted loss per share	**$ (0.01)**	$ (0.01)	**$ (0.02)**	$ (0.02)
Weighted average number of shares	**62,242,771**	39,190,687	**62,168,221**	36,592,115

The accompanying notes are an integral part of these financial statements

RUN OF RIVER POWER INC.
Consolidated Statements of Cash Flows
Six Months Ended June 30, 2008 and 2007
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	**2008**	2007
Cash Flows Used in Operating Activities				
Net loss for the period	**$ (464,485)**	$ (200,473)	**$ (1,232,201)**	$ (682,966)
Add (deduct) items not affecting cash:				
Depreciation and amortization	**163,523**	156,962	**325,109**	313,903
Stock based compensation	**78,113**	152,537	**171,906**	216,007
	(222,849)	109,026	**(735,186)**	(153,056)
Net changes in non-cash working capital items related to operations:				
Amounts receivable	**(190,634)**	(188,261)	**(66,229)**	(263,889)
GST receivable	**(32,953)**	33,702	**(89,909)**	28,731
Prepaid expenses	**(53,553)**	29,582	**(218,062)**	69,347
Accounts payable and accrued liabilities	**12,262**	76,759	**120,119**	60,538
Net cash from (used in) operating activities	**(487,727)**	60,808	**(989,267)**	(258,329)
Cash Flows Used in Investing Activities				
Increase in restricted cash	**(15,548)**	(15,802)	**(31,539)**	(31,141)
Increase in marketable securities	**34,230**	(4,783,061)	**(27,318)**	(4,590,014)
Increase in projects under development	**(847,914)**	(330,651)	**(1,634,391)**	(529,634)
Increase in intangibles	**-**	(1,782)	**-**	(1,782)
Increase in loans to related parties	**(162,349)**	-	**(196,030)**	-
Purchase of property, plant and equipment	**(30,046)**	(3,368)	**(51,239)**	(3,368)
Net cash used in investing activities	**(1,021,627)**	(5,134,664)	**(1,940,517)**	(5,155,939)
Cash Flows Used in Financing Activities				
Issuance of shares - net of issue costs	**-**	9,973,990	**-**	9,973,990
Exercise of warrants	**-**	232,523	**-**	232,523
Repayment of long term debt	**(96,547)**	(90,640)	**(191,582)**	(179,861)
Net cash from (used in) financing activities	**(96,547)**	10,115,873	**(191,582)**	10,026,652
Change in cash	**(1,605,901)**	5,042,017	**(3,121,366)**	4,612,384
Cash, beginning of period	**2,082,397**	467,134	**3,597,862**	896,767
Cash, end of period	**$ 476,496**	$ 5,509,151	**$ 476,496**	$ 5,509,151

Supplemental Disclosures with Respect to Cash Payments (Note 13)

The accompanying notes are an integral part of these financial statements

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, Rockford Energy Corporation ("Rockford"), Jascott Holdings Corp. ("Jascott"), Northwest Cascade Power Ltd., Crawford Energy Corp., Raffuse Energy Inc., Skookum Energy Corp., Sea to Sky Power Corporation and Western Biomass Power Corp. (see Note 4).

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. Basis of Presentation

While the information presented in the accompanying interim consolidated financial statements is unaudited, it includes all adjustments which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented. Except as disclosed below, these interim consolidated financial statements follow the same accounting policies and methods of their application as the December 31, 2007 annual consolidated financial statements. It is suggested that these interim consolidated financial statements be read in conjunction with the Company's December 31, 2007 audited annual consolidated financial statements. The interim consolidated financial statements contain disclosures which are supplemental to the Company's annual consolidated financial statements.

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

3. Adoption of New Accounting Standards

Financial instrument and capital disclosures

The CICA has issued the following accounting standards effective for fiscal years beginning on or after January 1, 2008: Section 1535 "Capital Disclosures", Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation".

Section 1535 "Capital Disclosures" requires the Company to provide disclosures about the capital of the Company and how it is managed.

3. Adoption of New Accounting Standards – (cont'd)

Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" replace Section 3861 "Financial Instruments - Disclosure and Presentation", revising disclosures related to financial instruments, including hedging instruments, and carrying forward unchanged presentation requirements.

The adoption of these new accounting standards did not impact the amounts reported in the financial statements of the Company; however, it did result in expanded note disclosure (see notes 11 and 12).

International Financial Reporting Standards

The Canadian Accounting Standards Board confirmed 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.

4. Business Acquisition

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 Western 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 will be released from escrow upon the execution of a long term electricity purchase agreement ("EPA") between BC Hydro, Western Biomass and TNG. In the event this condition is not met by December 31, 2009, the shares remaining in escrow will be cancelled and returned to treasury. All shares issued to the former Western Biomass shareholders were subject to a hold period which expired on June 1, 2008. The transaction is considered a related party transaction as 24.2% of the issued shares of Western Biomass are owned by a director and by an officer of the Company.

The acquisition has been accounted for using the purchase method. The results of Western Biomass have been consolidated from February 1, 2008 and are included in the Company's results of operations.

4. Business Acquisition – (cont'd)

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

Project under development	$	1,735,795
Equipment		1,016
Non-cash working capital		5,926
	$	1,742,737

Consideration:

Cash	$	192,814
Common shares – 3,780,301 shares valued at $0.41 per share		1,549,923
	$	1,742,737

The above amounts are based on information available to management at the date of this report and are subject to change if the information obtained by management changes subsequent to the date of this report.

5. Restricted Cash

Restricted cash is comprised of the following:

		June 30, 2008		December 31, 2007
Major Maintenance Reserve	$	131,736	$	108,267
Debt Service Reserve		427,572		419,502
	$	559,308	$	527,769

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 period ended June 30, 2008, the Major Maintenance Reserve was supplemented by a total of $21,218 (2007 - $20,600) pursuant to the agreement with the lender (see Note 8).

RUN OF RIVER POWER INC.
Notes to Consolidated Financial Statements
Six Months Ended June 30, 2008 and 2007
(Unaudited)

6. Property, Plant and Equipment

	June 30, 2008		
	Cost	Accumulated Amortization	Net
Brandywine Creek Project			
- Penstock	$ 7,885,747	$ 576,396	$ 7,309,351
- Powerhouse, turbines and related equipment	6,938,172	829,721	6,108,451
- Intake and diversion weir	2,738,274	205,222	2,533,052
- Interconnect costs	689,289	103,394	585,895
- Transmission line	200,737	30,110	170,627
- Land	24,979	-	24,979
	18,477,198	1,744,843	16,732,355
Office Equipment	62,081	23,547	38,534
Leasehold Improvements	39,394	39,394	-
Vehicles	56,797	16,027	40,770
Other Equipment	21,314	14,273	7,041
Furniture and Fixtures	22,014	5,461	16,553
	201,600	98,702	102,898
	$ 18,678,798	$ 1,843,545	$ 16,835,253

	December 31, 2007		
	Cost	Accumulated Amortization	Net
Brandywine Creek Project			
- Penstock	$ 7,885,747	$ 477,823	$ 7,407,924
- Powerhouse, turbines and related equipment	6,938,172	690,957	6,247,215
- Intake and diversion weir	2,738,274	170,993	2,567,281
- Interconnect costs	689,289	86,161	603,128
- Transmission line	200,737	25,092	175,645
- Land	24,979	-	24,979
	18,477,198	1,451,026	17,026,172
Office Equipment	40,124	15,880	24,244
Leasehold Improvements	39,394	29,546	9,848
Vehicles	38,870	10,941	27,929
Other Equipment	21,314	12,229	9,085
Furniture and Fixtures	10,659	3,605	7,054
	150,361	72,201	78,160
	$ 18,627,559	$ 1,523,227	$ 17,104,332

RUN OF RIVER POWER INC.
Notes to Consolidated Financial Statements
Six Months Ended June 30, 2008 and 2007
(Unaudited)

7. Projects under Development

At June 30, 2008, projects under development represent costs incurred for additional hydroelectric sites and project development expenses that have been capitalized.

Cumulative project costs incurred by the Company are as follows:

	December 31, 2007 Net Book Value	2008 Net Expenditure	June 30, 2008 Net Book Value
Bella Coola	$ 22,000	$ 90,505	$ 112,505
Crawford Creek	264,653	57,170	321,823
Dewdney Creek	137,686	-	137,686
Pitt River	2,491,300	764,918	3,256,218
Raffuse Creek	480,028	65,857	545,885
Skookum Creek	463,402	81,854	545,256
Western Biomass	-	1,987,672	1,987,672
Other	234,392	512,676	747,068
	$ 4,093,461	$ 3,560,652	$ 7,654,113

	December 31, 2006 Net Book Value	2007 Net Expenditure	December 31, 2007 Net Book Value
Crawford Creek	$ 214,367	$ 50,286	$ 264,653
Dewdney Creek	137,686	-	137,686
Pitt River	787,682	1,703,618	2,491,300
Raffuse Creek	388,007	92,021	480,028
Skookum Creek	415,680	47,722	463,402
Other	234,392	22,000	256,392
	$ 2,177,814	$ 1,915,647	$ 4,093,461

During the period ended June 30, 2008, $214,647 of general and administrative expenses (June 30, 2007 - $Nil) and $128,140 of non-cash stock based compensation expenses ((June 30, 2007 - $Nil)) were capitalized and included in the costs of projects under development.

8. Long-Term Debt

		June 30, 2008		December 31, 2007
Loans payable	$	11,963,101	$	12,154,683
Less deferred financing costs		(233,744)		(244,769)
		11,729,357		11,909,914
Less current portion		(401,794)		(389,308)
	$	11,327,563	$	11,520,606

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.

At June 30, 2008, long term debt repayments over the next five years are as follows:

Six months ended December 31, 2008	$	197,726
2009		414,679
2010		441,703
2011		470,489
2012		501,150
Remaining		9,937,354
	$	11,963,101

9. Related Party Transactions

During the period ended June 30, 2008 and 2007 the Company incurred the following expenses involving officers, directors and companies with directors in common:

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Consulting	$ -	$ 66,715
Directors' fees	21,750	8,000
Professional fees	11,050	50,552
Wages and benefits	340,867*	48,000
	$ 531,121	$ 173,267

* $138,466 of this amount was capitalized during the period.

The Company also incurred consulting fees of $42,500 (2007 - $84,000) with a company controlled by an officer of the Company. $38,250 (2007 - $75,600) of the consulting fees was capitalized to projects under development in the period.

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

At June 30, 2008, the Company was owed $96,578 (December 31, 2007 - $96,578) by Rockford Technology Corporation. The loan is unsecured and bears interest at 9%. The original loan due September 17, 2006 has been extended for two years under the same terms and will now mature on September 17, 2008. Interest in the amount of $17,384 has been paid in cash during the period. Also included in due from related parties of $292,608 (December 31, 2007 - $271,337) are advances to Pacific Northwest Biomass Corp. ("PNBC") of $193,679 (December 31, 2007 - $Nil). These advances are repayable on demand and bear no interest.

Included in accounts payable is $9,342 (December 31, 2007 - $8,974) payable to a director and an officer of the Company.

A shareholder and Director of the Corporation is also a 25% shareholder and director of PNBC.

10. 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 June 2007, the Company issued 27,500,000 units pursuant to a private placement at $0.40 per unit for gross proceeds of $11,000,000. Each unit consists of one common share and one common share purchase warrant exercisable at a price of $0.60 to purchase one additional common share of the Company for a period of 24 months from the date of closing of the placement. Proceeds are allocated to the value of the shares with a $nil value attributed to the warrants. The Agent conducting the private placement received a commission of 8% of the gross proceeds of 26,625,000 units and Agent's warrants exercisable for 2,130,000 units. The Agent's warrants have the same terms and conditions as the units in the Offering.

The units and warrants issued to the Agent for financing fees were valued at $1,192,800 (2006 - $147,000). The value was determined using the Black-Scholes model with the assumptions noted below for stock based compensation.

In June 2007, the Company issued 387,538 common shares at $0.60 per share upon the exercise of warrants.

In December 2007, the Company issued 100,000 common shares at 0.375 per share upon the exercise of warrants.

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 1,260,094 shares are held in escrow at June 30, 2008 (see Note 4).

Shares issued and outstanding:

	Number of Common Shares	Amount
Balance – December 31, 2006	33,964,669	$ 12,241,183
Issued for cash pursuant to Private Placement	27,500,000	11,000,000
Share issue costs		(2,218,902)
Issued for cash pursuant to exercise of warrants	387,538	232,523
Issued for cash pursuant to exercise of warrants	100,000	37,500
Transfer of contributed surplus on exercise of warrants		21,000
Balance – December 31, 2007	61,952,207	21,313,304
Issued on business acquisition	3,780,301	1,549,923
Balance – June 30, 2008	65,732,508	$ 22,863,227

10. Share Capital – (cont'd)

b) Commitments

Warrants

A summary of warrants outstanding is as follows:

Description	Number	Exercise Price	Expiry
Warrants (2006 unit financing)	3,500,000	$0.50	July 18, 2008
Warrants (Commission units)	350,000	$0.50	July 18, 2008
Unit Purchase Warrants (Agent's Warrants)	250,000	$0.375	July 18, 2008
Warrants attached to Agent's Warrants	350,000	$0.50	July 18, 2008
Warrants (2007 unit financing)	27,500,000	$0.60	June 14, 2009
Warrants (Agent's Warrants)	2,130,000	$0.40	June 14, 2009
Warrants attached to Agent's Warrants	2,130,000	$0.60	June 14, 2009
Outstanding at March 31, 2008	36,210,000		

In 2007, 487,538 warrants were exercised and 8,806,192 warrants expired.

The changes in warrants are summarized as follows:

	Number	Weighted Average Exercise Price
Outstanding at December 31, 2006	13,743,730	$0.70
Issued	31,760,000	$0.59
Exercised	(487,538)	$0.55
Expired	(8,806,192)	$0.81
Outstanding at June 30, 2008 and December 31, 2007	36,210,000	$0.58

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.

10. Share Capital – (cont'd)

b) Commitments – (cont'd)

Stock-Based Compensation Plan - (cont'd)

In June 2007, the Company granted options to directors, officers and consultants to purchase up to 570,000 shares of the Company at an exercise price of $0.60 per share. 520,000 of the options vest in the following manner: one third of the options vest immediately; one third becomes vested on each of the first and second anniversaries of the grant date. The remaining 50,000 of the options vest over two years with 25% vesting on the grant date, 40% on the first anniversary of the grant date and 35% on the second anniversary.

In July 2007, the Company granted options to an officer and a consultant to purchase up to 80,000 shares of the Company at an exercise price of $0.65 per share. One third of the options vest immediately; one third becomes vested on each of the first and second anniversaries of the grant date.

In November 2007, the Company granted options to officers, employees and consultants to purchase 1,195,000 shares of the Company at an exercise price of $0.41 per share. One third of the options vest immediately; one third becomes vested on each of the first and second anniversaries of the grant date.

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 vest 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 vest immediately; one third becomes vested on each of the first and second anniversaries of the grant date.

A summary of share purchase option plan is as follows:

	Number	Weighted Average Exercise Price
Outstanding at December 31, 2006	2,825,000	$0.57
Expired	(266,667)	$0.60
Forfeited	(33,333)	$0.60
Granted	570,000	$0.60
Granted	80,000	$0.65
Granted	1,195,000	$0.41
Outstanding at December 31, 2007	4,370,000	$0.53
Granted	550,000	$0.41
Granted	150,000	$0.32
Outstanding at June 30, 2008	5,070,000	$0.52

10. Share Capital – (cont'd)

b) Commitments – (cont'd)

Stock-Based Compensation Plan - (cont'd)

At June 30, 2008, 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
25,000	$0.30	January 31, 2010
1,900,000	$0.60	June 9, 2010
200,000	$0.60	July 1, 2010
400,000	$0.40	June 22, 2011
570,000	$0.60	June 14, 2012
80,000	$0.65	July 19, 2012
1,195,000	$041	November 23, 2012
550,000	$0.41	February 15, 2013
150,000	$0.32	June 10, 2013
5,070,000		

The following table summarizes information on fully vested stock options outstanding at June 30, 2008:

Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)
$0.30	25,000	1.58
$0.32	50,000	5.0
$0.40	400,000	3.0
$0.41	581,667	4.5
$0.60	2,479,167	2.5
$0.65	26,667	4.1
$0.30 – $0.65	3,167,833	3.0

10. Share Capital – (cont'd)

b) Commitments – (cont'd)

Stock-Based Compensation Plan - (cont'd)

The weighted fair value of share purchase options granted in 2008 was $0.34 (2007 - $0.41) 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:

	2008	2007
Expected dividend yield	0.00%	0.00%
Expected volatility	106%	114%
Risk-free interest rate	3.44%	3.75%
Expected term in years	5 years	5 years

c) Contributed Surplus

The following table reconciles the Company's contributed surplus:

Balance – December 31, 2006	$	1,487,784
Options		475,922
Agent warrants		1,192,800
Transfer of contributed surplus on exercise of warrants		(21,000)
Balance – December 31, 2007		3,135,506
Options		300,046
Balance – June 30, 2008	$	3,435,552

11. Capital Disclosures

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

		June 30, 2008		December 31, 2007
Components of Capital:				
Shareholders' equity	$	20,529,143	$	19,911,375
Long – term debt		11,729,357		11,909,914
Less:				
Cash and cash equivalents		(6,658,665)		(9,721,174)
	$	25,599,835	$	22,100,115

11. Capital Disclosures – (cont'd)

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 quarters rolling average Debt Service Coverage Ratio not less than 1.00:1. This ratio is calculated as follows:

Q1 2007	0.51
Q2 2007	2.08
Q3 2007	1.98
Q4 2007	1.41
Q1 2008	0.38
Q2 2008	1.02
Four quarters rolling average – December 31, 2007	1.50
Four quarters rolling average – June 30, 2008	1.20

As at June 30, 2008 and December 31, 2007, the Company complied with the terms of the credit facilities.

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

12. 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. The fair value of these financial instruments approximates their carrying value as they are short term in nature or have interest at floating rates. 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 Company had neither available-for-sale, nor held-to-maturity instruments during the period ended June 30, 2008.

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 to 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.

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 from its Brandywine Creek facility.

12. Financial Risk Management – (cont'd)

(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 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 Company's Brandywine Creek facility. BC Hydro is a rated, credit worthy counterparty and amounts receivable are current as of June 30, 2008.

(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 and cash equivalents. 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.

13. Cash Payments

The following cash payments have been made in the period ended June 30, 2008 and 2007:

	2008	2007
Interest	$ 382,185	$ 393,906
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, 2007, in connection with a private placement, the Company issued 2,130,000 units to the Agent valued at $1,192,800.

During the period ended June 30, 2008, in connection with a business acquisition, the Company issued 3,780,301 common shares valued at $1,549,923.

Accounts payable at June 30, 2008 include $191,678 (December 31, 2007 - $102,135) related to deferred development costs and equipment acquisitions.

14. 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.

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. Minimum payments that can be projected with certainty total $635,000 for the 12 months ended June 30, 2009.

Lease Agreements

The Company occupies office space at two locations under leases which provide for future minimum rental payments as follows:

Six months ended December 31, 2008	$38,265
2009	$81,350
2010	$44,233

15. Subsequent Events

In August 2008, the Company completed the acquisition of 80% of the issued and outstanding shares of Pacific Northwest Biomass Corp. ("PNBC"). A total of 4,000,000 shares of the Company have been allocated for issuance subject to final acceptance by the TSX Venture Exchange. When issued, the shares will be held in escrow and released as follows:

i) 2,000,000 shares upon receipt of both a final independent engineering study which confirms the economic feasibility and an independent consulting report which confirms the adequacy of the fibre supply of the power plant.

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.

Should these conditions be met, resulting in the 4,000,000 shares being released from escrow, and an EPA is executed with BC Hydro for a second plant by December 31, 2009, a further 1,000,000 shares of the Company will be issued.

15. Subsequent Events – (cont'd)

The acquisition will be accounted for using the purchase method.

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

Projects under development	$	1,043,679
Accounts payable and accrued liabilities		(203,679)
	$	840,000

Consideration:		
Common shares – 4,000,000 shares valued at $0.21 per share	$	840,000

The above amounts are based on information available to management as of the date of this report and are subject to change if the information obtained by management changes subsequent to the date of this report.

PNBC has submitted a proposal to BC Hydro for a 30 MW biomass power plant under Phase I of the Bio Energy Call for Power. The proposed facility is to be located near New Hazelton, BC. A shareholder and director of the Company is also a 25% shareholder and director of PNBC.