



powering a cleaner tomorrow

RUN OF RIVER POWER INC.

Consolidated Financial Statements
Three Months Ended March 31, 2009 and 2008
(Unaudited)

RUN OF RIVER POWER INC.
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Three Months Ended March 31, 2009 and 2008
(Unaudited)

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NOTICE

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 March 31, 2009 and December 31, 2008

	(Unaudited) March 31, 2009	(Audited) December 31, 2008
Assets		
Current		
Cash	\$ 623,233	\$ 875,745
Restricted cash (Note 5)	600,586	589,137
Marketable securities	1,467,533	2,576,725
Amounts receivable	37,961	99,763
Due from related parties (Note 8)	96,578	96,578
GST receivable	447,306	421,981
Prepaid expenses	187,911	251,877
	3,461,108	4,911,806
Property, plant and equipment, net (Note 6)	16,401,223	16,562,292
Projects under development (Notes 4 and 7)	11,129,287	10,484,023
Future income tax assets	380,469	380,469
Licenses and security deposit	82,945	82,945
	\$ 31,455,032	\$ 32,421,535
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 8)	\$ 288,897	\$ 461,104
Current portion of long-term debt (Note 9)	421,274	414,680
	710,171	875,784
Long-term debt (Note 9)	11,025,343	11,127,805
Future income tax liabilities (Note 4)	589,232	589,232
	12,324,746	12,592,821
Shareholders' Equity		
Share capital (Note 10)	22,766,588	22,766,588
Contributed surplus (Note 10)	3,668,477	3,620,960
Deficit	(7,304,779)	(6,558,834)
	19,130,286	19,828,714
	\$ 31,455,032	\$ 32,421,535

On behalf of the board:

"R.G. "Jako" Krushnisky"

Director

"Richard Hopp"

Director

RUN OF RIVER POWER INC.
Consolidated Statements of Operations and Deficit
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	Three Months Ended March 31	
	2009	2008
Revenues		
Electricity sales	\$ 85,546	\$ 109,197
Royalties	(855)	(1,092)
	84,691	108,105
Expenses		
Plant operations	130,529	105,066
Depreciation and amortization	159,167	156,052
General and administration	349,450	507,261
	639,146	768,379
Loss before the following	(554,455)	(660,274)
Interest on long-term debt	185,655	191,848
Amortization of deferred financing charges	5,361	5,534
Interest and investment (income) loss	474	(89,940)
Net loss and comprehensive loss for the period	(745,945)	(767,716)
Deficit, beginning of period	(6,558,834)	(4,537,435)
Deficit, end of period	\$ (7,304,779)	\$ (5,305,151)
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)
Weighted average number of shares	66,472,414	62,093,671

RUN OF RIVER POWER INC.
Consolidated Statements of Cash Flows
Three Months Ended March 31, 2009 and 2008
(Unaudited)

	Three Months Ended March 31	
	2009	2008
Cash flows from (used in) operating activities		
Net loss for the period	\$ (745,945)	\$ (767,716)
Add (deduct) items not affecting cash:		
Depreciation and amortization	164,528	161,586
Stock based compensation	22,901	93,793
Unrealized loss on investment in marketable securities	11,408	-
	(547,108)	(512,337)
Net changes in non-cash working capital items related to operations:		
Amounts receivable	61,802	124,405
GST receivable	(25,325)	(56,956)
Prepaid expenses	63,966	(164,509)
Accounts payable and accrued liabilities	(24,175)	107,857
Net cash used in operating activities	(470,840)	(501,540)
Cash flows from (used in) investing activities		
Increase in restricted cash	(11,449)	(15,991)
Decrease (increase) in marketable securities	1,097,784	(61,548)
Increase in projects under development	(766,589)	(786,477)
Property, plant and equipment expenditures	(189)	(21,193)
Increase in loans to related parties	-	(33,681)
Net cash from (used in) investing activities	319,557	(918,890)
Cash flows used in financing activities		
Repayment of long term debt	(101,229)	(95,035)
Net cash used in financing activities	(101,229)	(95,035)
Change in cash	(252,512)	(1,515,465)
Cash, beginning of period	875,745	3,597,862
Cash, end of period	\$ 623,233	\$ 2,082,397

Supplemental Disclosures with Respect to Cash Payments (Note 13)

RUN OF RIVER POWER INC.

Notes to the Consolidated Financial Statements

Three Months Ended March 31, 2009 and 2008

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., 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 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, 2008 annual consolidated financial statements. It is suggested that these interim consolidated financial statements be read in conjunction with the Company’s December 31, 2008 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

i) 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 and has not yet determined the impact on its financial position or results of operations.

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

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 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 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 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.

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. These changes are effective on January 1, 2009 and implementation is not expected to have a material impact on the financial position or results of operations.

4. 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 will 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 is not met by December 31, 2009, the shares remaining in escrow will be 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 \$698,160 and \$181,521 respectively and \$516,639 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.

RUN OF RIVER POWER INC.
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4. Business Acquisitions – (cont'd)

Western Biomass Power Corp. – (cont'd)

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)
	<u>\$ 1,033,284</u>

Consideration:

Common shares – 3,780,301 shares valued at \$0.41 per share	\$ 1,549,923
Less shares held in escrow – 1,260,094 shares valued at \$0.41 per share	(516,639)
	<u>\$ 1,033,284</u>

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 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 confirms the economic feasibility and an independent consulting report which confirms 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. 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 \$67,568 and \$147,568 respectively and \$420,000 will be recorded in share capital.

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4. Business Acquisitions – (cont'd)

Pacific Northwest Biomass Corp. – (cont'd)

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. The value of the 1,000,000 shares that are contingently issuable cannot be determined at this time.

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)
		<u>420,000</u>
	\$	<u>420,000</u>
Consideration:		
Common shares – 4,000,000 shares valued at \$0.21 per share	\$	840,000
Less shares held in escrow – 2,000,000 shares valued at \$0.21 per share		(420,000)
		<u>420,000</u>
	\$	<u>420,000</u>

5. Restricted Cash

Restricted cash is comprised of the following:

	March 31, 2009	December 31, 2008
Major Maintenance Reserve	\$ 166,628	\$ 155,563
Debt Service Reserve	433,958	433,574
	<u>600,586</u>	<u>589,137</u>

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 March 31, 2009, the Major Maintenance Reserve was supplemented by a total of \$10,927 (2008 - \$10,609) pursuant to the agreement with the lender (see Note 9).

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6. Property, Plant and Equipment

	March 31, 2009		
	Cost	Accumulated Amortization	Net
Brandywine Creek Project			
- Penstock	\$ 7,885,747	\$ 724,253	\$ 7,161,494
- Powerhouse, turbines and related equipment	6,938,172	1,037,867	5,900,305
- Intake and diversion weir	2,738,274	256,565	2,481,709
- Interconnection costs	689,289	129,242	560,047
- Transmission line	200,737	37,640	163,097
- Land	24,979	-	24,979
	<u>18,477,198</u>	<u>2,185,567</u>	<u>16,291,631</u>
Leasehold Improvements	73,193	50,660	22,533
Office Equipment	69,745	37,741	32,004
Vehicles	56,797	24,617	32,180
Other Equipment	21,314	16,879	4,435
Furniture and Fixtures	28,261	9,821	18,440
	<u>249,310</u>	<u>139,718</u>	<u>109,592</u>
	<u>\$ 18,726,508</u>	<u>\$ 2,325,285</u>	<u>\$ 16,401,223</u>

	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
	<u>18,477,198</u>	<u>2,038,660</u>	<u>16,438,538</u>
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
	<u>249,122</u>	<u>125,368</u>	<u>123,754</u>
	<u>\$ 18,726,320</u>	<u>\$ 2,164,028</u>	<u>\$ 16,562,292</u>

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7. Projects under Development

At March 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	March 31, 2009 Net Book Value
Hydroelectric Projects			
Upper Pitt River Cluster	\$ 3,999,741	\$ 192,970	\$ 4,192,711
Mamquam Cluster	2,325,798	167,771	2,493,569
Other	624,763	56,134	680,897
	<u>6,950,302</u>	<u>416,875</u>	<u>7,367,177</u>
Biomass Projects			
Tsilhqot'in Power Project	2,350,122	118,443	2,468,565
Suskwa Power Project	1,183,599	109,946	1,293,545
	<u>3,533,721</u>	<u>228,389</u>	<u>3,762,110</u>
	<u>\$ 10,484,023</u>	<u>\$ 645,264</u>	<u>\$ 11,129,287</u>

	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
	<u>4,093,461</u>	<u>2,856,841</u>	<u>6,950,302</u>
Biomass Projects			
Tsilhqot'in Power Project	-	2,350,122	2,350,122
Suskwa Power Project	-	1,183,599	1,183,599
	<u>-</u>	<u>3,533,721</u>	<u>3,533,721</u>
	<u>\$ 4,093,461</u>	<u>\$ 6,390,562</u>	<u>\$ 10,484,023</u>

During the period ended March 31, 2009, \$103,150 (2008 – \$99,205) of management wages and salaries expenses and \$24,616 (2008 - \$12,250) of non-cash stock based compensation expenses directly attributable to the projects were capitalized and included in the costs of projects under development.

RUN OF RIVER POWER INC.
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8. Related Party Transactions

At March 31, 2009, the Company was owed \$96,578 (2008 - \$96,578) 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. Interest in the amount of \$17,384 has been received. At March 31, 2009, accrued interest totalled \$10,865.

Included in accounts payable at March 31, 2009 is \$5,402 (2008 - \$11,093) payable to the directors and to an officer of the Company.

During the period the Company incurred certain project costs related to its biomass projects totalling \$81,211 (2008 - \$Nil) which may be recoverable should the projects proceed to completion.

9. Long-Term Debt

	March 31, 2009	December 31, 2008
Loans payable	\$ 11,664,146	\$ 11,765,375
Less deferred financing costs	(217,529)	(222,890)
	11,446,617	11,542,485
Less current portion	(421,274)	(414,680)
	<u>\$ 11,025,343</u>	<u>\$ 11,127,805</u>

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 5)

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Notes to the Consolidated Financial Statements
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9. Long-Term Debt – (cont'd)

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

Nine months ended December 31, 2009	313,451
2010	441,703
2011	470,489
2012	501,150
2013	533,810
Remaining	9,403,543
	<u>\$ 11,664,146</u>

At March 31, 2009, the Company was not in compliance with its Debt Service Coverage Ratio of 1.00:1. Pursuant to the loan agreement, the Company has notified its lenders and has received a waiver of this covenant.

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 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 March 31, 2009 (see Note 4).

In September 2008, with respect to the acquisition of PNBC, the Company issued 4,000,000 shares at \$0.21 per share, of which 2,000,000 shares are held in escrow at March 31, 2009 (see Note 4).

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 4).

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10. Share Capital – (cont'd)

a) Common shares issued – (cont'd)

Shares issued and outstanding:

	Number of Common Shares	Amount
Balance – December 31, 2007	61,952,207	\$ 21,313,304
Issued on business acquisition - Western Biomass – Note 4	3,780,301	1,033,284
Issued on business acquisition – PNBC – Note 4	4,000,000	420,000
Balance – December 31, 2008 and March 31, 2009	<u>69,732,508</u>	<u>\$ 22,766,588</u>

b) Commitments

Warrants

A summary of warrants outstanding is as follows:

Description	Number	Exercise Price	Expiry
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, 2009	<u>31,760,000</u>		

The changes in warrants are summarized as follows:

	Number	Weighted Average Exercise Price
Outstanding at December 31, 2007	36,210,000	\$0.58
Expired	<u>(4,450,000)</u>	\$0.49
Outstanding at December 31, 2008 and March 31, 2009	<u>31,760,000</u>	\$0.59

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.

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10. Share Capital – (cont’d)

b) Commitments – (cont’d)

Stock-Based Compensation Plan - (cont’d)

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.

A summary of share purchase option plan 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 and March 31, 2009	<u>5,870,000</u>	\$0.45
Exercisable at March 31, 2009	<u>4,437,485</u>	\$0.50

At March 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	0.8
1,900,000	\$0.60	June 9, 2010	1.2
200,000	\$0.60	July 1, 2010	1.3
400,000	\$0.40	June 22, 2011	2.3
570,000	\$0.60	June 14, 2012	3.2
80,000	\$0.65	July 19, 2012	3.3
1,195,000	\$0.41	November 23, 2012	3.7
550,000	\$0.41	February 15, 2013	3.9
150,000	\$0.32	June 10, 2013	4.2
800,000	\$0.10	December 10, 2013	4.7
<u>5,870,000</u>			2.8

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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 \$0.17 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:

	<u>2008</u>
Expected dividend yield	0.00%
Expected volatility	103%
Risk-free interest rate	3.04%
Expected term in years	5 years

c) Dilutive Common Shares

For the period ended March 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 40,890,094 (2008 – 44,695,748) were not included in the computation of loss per share as the effect would be anti-dilutive.

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	<u>3,620,960</u>
Options	47,517
Balance – March 31, 2009	<u>\$ 3,668,477</u>

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11. Capital Disclosures

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

	March 31, 2009	December 31, 2008
Components of Capital:		
Shareholders' equity	\$ 19,130,286	\$ 19,828,714
Long – term debt	11,446,617	11,542,485
Less:		
Cash, cash equivalents and marketable securities	(2,691,352)	(4,041,607)
	<u>\$ 27,885,551</u>	<u>\$ 27,329,592</u>

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:

Q2 2007	2.08
Q3 2007	1.98
Q4 2007	1.41
Q1 2008	0.38
Q2 2008	1.02
Q3 2008	1.20
Q4 2008	1.03
Q1 2009	0.09
Four quarters rolling average – December 31, 2008	0.91
Four quarters rolling average – March 31, 2009	0.84

At 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 the end of each period.

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

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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. 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. The Company had neither available-for-sale, nor held-to-maturity instruments during the period ended March 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.

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.

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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 March 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.

13. Cash Payments

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

	2009	2008
Interest	\$ 185,655	\$ 191,848
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 period ended March 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 1,260,094 shares are held in escrow at March 31, 2009 (see Note 4).

During the period ended March 31, 2009, stock based compensation costs of \$24,616 (2008 - \$12,250) are capitalized in projects under development.

Accounts payable and accrued liabilities at March 31, 2009 include \$101,372 (2008 - \$239,290) related to deferred development costs and equipment acquisitions.

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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 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 March 31, 2010.

Lease Agreements

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

2009	\$61,013
2010	\$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 \$9,605.

15. 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.

16. Subsequent Event

In April 2009, the Company granted options to its non-executive directors for the purchase of 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.