

**RUN OF RIVER POWER INC.**  
**Management Discussion and Analysis**  
**Quarter Ended September 30, 2008**

The following Management's Discussion and Analysis ("MD&A") includes financial information from, and should be read in conjunction with, the unaudited Interim Consolidated Financial Statements of Run of River Power Inc. ("Corporation") for the nine months ended September 30, 2008. The Corporation reports its financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles ("GAAP") in Canadian dollars. This MD&A was prepared with information available as of November 27, 2008. Additional information and disclosure relating to the Corporation can be found on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Corporation's website at [www.runofriverpower.com](http://www.runofriverpower.com).

**FORWARD-LOOKING STATEMENTS**

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

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

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

**OVERVIEW**

Run of River Power Inc. develops renewable, sustainable energy through its portfolio of run-of-river and biomass projects in British Columbia ("BC"). The Corporation's first run-of-river hydroelectric project in operation is an Eco Logo© certified 7.6 MW facility based on Brandywine Creek near Whistler, BC. The facility began producing electricity in 2005, with all of its production sold to BC Hydro under a 20 year Electricity Purchase Agreement ("EPA"). Currently the Brandywine facility is Run of River's sole source of revenue; however, 675 MW of run-of-river hydroelectric and 90 MW of biomass power projects are currently in various stages of development.

The Corporation and its wholly owned subsidiaries: 1554675 Ontario Limited (currently inactive), Rockford Energy Corporation ("Rockford"), Jascott Holdings Corp. ("Jascott"), Northwest Cascade Power Inc. ("NWCP"), Crawford Energy Corp., Raffuse Energy Inc., Skookum Energy Corp., Sea to Sky Power Corporation, Western Biomass Power Corp ("Western Biomass") and its 80% owned subsidiary Pacific Northwest Biomass Corporation ("PNBC") are incorporated in the Province of BC, Canada. The Corporation is a reporting issuer in BC and Alberta and its common shares trade on the TSX Venture Exchange (TSX-V) under the symbol ROR.

In 2005 the Corporation acquired the Upper Pitt River cluster that comprises projects covering eight tributaries of the Upper Pitt River. The Upper Pitt River is located about 50 kilometres from Vancouver and drains an area immediately to the east of the Mamquam River Watershed where the Corporation has another three development projects. A comprehensive development plan is being advanced for the Upper Mamquam cluster of 42 MW and the Upper Pitt River cluster accounting for a further 155 MW. These run-of-river projects use the proximity of their locations to transmission infrastructure, and other projects within their clusters, to take advantage of economies of scale. All of these projects are expected to utilize the same transmission line, subject to the necessary permitting being obtained, which will result in shared infrastructure costs and minimized visual impacts.

The Corporation has another 478 MW of run-of-river projects in the very early stages of development. These projects have attributes similar to those in the Upper Pitt and the Mamquam clusters.

During the third quarter of 2008, the Corporation completed the acquisition of 80% of the issued and outstanding shares of PNBC. PNBC through its subsidiary Suskwa Power Corporation, and in partnership with Gitksan Forest Enterprises, the Suskwa Chiefs Economic Corporation and the Hereditary Chiefs of the Suskwa Watersheds, is proposing a 30MW biomass power plant to be located near Hazelton, BC.

Subsequent to quarter end, the Corporation submitted a Request for Proposal (RFP) for the Mamquam Power Cluster (35 MW) and the Pitt Power Cluster (155 MW) in BC Hydro's Clean Power Call.

Following the end of the quarter, the Corporation advanced 16 new hydroelectric power projects in Central BC with combined total output estimated in excess of 900 Gwh of green energy per year, enough power to meet the energy needs of approximately 90,000 homes annually.

## **OUTLOOK**

### **Seasonality of Operations**

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

Q1 – 15%      Q2 – 35%      Q3 – 28%      Q4 – 22%

## PROJECT UPDATES

### Run-of-River Projects

Run of River Power Inc.'s **advanced development pipeline** consists of the following run-of-river projects:

<b>Upper Pitt Cluster (155 MW)</b>		
	Capacity ( MW)	Estimated Energy GWh/yr
Bucklin Creek	30	105
Pinecone Creek	25	88
Shale Creek	15	52
Steve Creek	15	49
Corbold Creek	20	82
East Corbold Creek	15	67
Homer Creek	10	42
Boise Creek	25	89
<b>Mamquam Cluster (42 MW)</b>		
	Capacity ( MW)	Estimated Energy GWh/yr
Raffuse Creek	10	38
Crawford Creek	7	26
Skookum Creek	25	95

### Upper Pitt River Cluster

The Corporation and its wholly-owned subsidiary, NWCP, have been exploring the development of hydroelectric power projects in the Fraser Valley Regional District on tributaries of the Upper Pitt River since the successful development of the Brandywine Creek project in 2004.

NWCP received confirmation in February 2007, from the Environmental Assessment Office that the formal review process could commence on the Upper Pitt River project. This review process has fixed timelines; the application screening stage (maximum 30 days) followed by the application review and assessment (maximum 180 days) will lead to the Ministers' decision on an environmental assessment certificate (maximum 45 days). The Corporation anticipates that the application review stage will commence in spring 2009, with an objective to obtain an environmental assessment certificate for the Project in fall 2009.

NWCP has proposed a 230 kV transmission line that will be 42 kilometres long and will transmit renewable energy from the Upper Pitt and Mamquam areas to BC Hydro's Cheekye electrical substation near Squamish. Hydrology studies have been completed and indicate that the eight projects of the Upper Pitt River will now have a combined capacity of 155 MW and will generate an estimated 574 GWh/yr of electricity. These sites were chosen not only for the suitability of high-elevation creeks for run-of-river green hydro, but for the proximity to the major population of the Lower Mainland, where so much of BC's new residential and commercial growth has increased the demand for electricity.

NWCP submitted an application for a park boundary adjustment to BC Parks (Ministry of Environment) in respect of its Upper Pitt River project. The park boundary adjustment is required to provide for a 4.6 kilometre long transmission line corridor across a remote mountain pass in Pinecone Burke Provincial Park. In March 2008, BC Environment Minister Barry Penner advised he would not recommend to Cabinet or the BC Legislature acceptance of a park boundary adjustment proposal submitted for Pinecone Burke Provincial Park.

The proposal fulfills the requirements of the provincial government's Provincial Park Boundary Adjustment Policy, Process, and Guidelines. This is supported by a series of detailed engineering, environmental, and

socioeconomic studies, as well as consultations and meetings with government, First Nations (the Katzie First Nation have a co-management agreement for the park) and stakeholders. It is also believed that the overall development fulfils the government's requirement for sustainable development in the province, including its sub-requirements of environmental benefits, social benefits, and economic benefits. The Corporation is presently evaluating several alternative transmission routes that would retain the original economics of the development. It is the Corporation's belief that a viable alternative can be advanced and is proceeding to develop alternatives for this cluster of projects.

The Corporation continued feasibility and permitting work in the Upper Pitt River and subsequent to the end of the third quarter submitted a proposal for the Pitt Power Cluster into BC Hydro's Clean Call for power. The cluster includes seven green energy run-of-river hydropower projects on eight tributaries of the Upper Pitt River located at the North end of Pitt Lake approximately 35 km from Pitt Meadows, BC.

The Pitt Power Cluster will have a combined installed plant capacity of 155 MW and will connect to BC Hydro's grid at the Cheekye Substation located just north of Squamish BC. A Feasibility Interconnection Study Application for connection to the grid was submitted to the British Columbia Transmission Corporation (BCTC) on October 17, 2008.

### **Mamquam River Watershed**

Feasibility and permitting work also continued at the Corporation's projects located in the Mamquam River Watershed. As a result, the company has submitted a proposal for the Mamquam Power Cluster in BC Hydro's Clean Call for Power. The cluster consists of three green energy run-of-river hydropower projects and will have a combined capacity of 42 MW and will generate an estimated 159 GWh/yr of electricity. The Corporation has submitted a proposal for two of the three projects totalling 35 MW into BC Hydro's Clean Call for Power.

The interconnected projects are located in close proximity to one another in the Mamquam watershed near Squamish approximately 70 km North of Vancouver, and will also connect to BC Hydro's grid at the Cheekye Substation. A Feasibility Interconnection Study Application for connection to the grid was also submitted to the BCTC on October 17, 2008.

Bids for both projects into BC Hydro's Clean Call for power were submitted on November 25, 2008 and contracts are to be awarded in the second quarter of 2009.

### **Tatla Lake**

During the quarter, the Corporation advanced 16 new run-of-river hydroelectric power projects in central BC. This is the result of the completion of Stages 1 and 2 toward securing Water License and Crown Land rights from the Integrated Land Management Bureau (Ministry of Agriculture and Lands) and the Water Stewardship Division (Ministry of the Environment).

The power projects will be located in the upper Klinaklini and Mosley watersheds, south of the Tatla Lake area and approximately 220 km west of Williams Lake on the Chilcotin Plateau of central BC.

The Klinaklini projects have design capacity estimated at 184 MW while the Mosley cluster is estimated at 96 MW. The combined total output for these projects is estimated to be in excess of 900 Gwh of green energy per year, enough power to meet the energy needs of approximately 90,000 homes.

## Biomass Projects

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

<b>Biomass (90 MW)</b>		
	Capacity ( MW)	Estimated Energy GWh/yr
Western Biomass	60	465
PNBC	30	214

The Corporation currently has two large scale biomass power initiatives totalling 90 MW of base load capacity under development. The 60 MW Tsilhqot'in power project is a joint venture between the Corporation's wholly owned subsidiary, Western Biomass, and the TNG and will utilize mountain pine beetle damaged timber, which has devastated over eight million hectares of pine forests in central BC, for its fibre supply.

The second project is the 30 MW Suskwa power project to be located in Northwest BC near New Hazelton. The Corporation, via Western Biomass, agreed to purchase 80% of PNBC whereby PNBC holds a 100% interest in the project with an option for its partners, the Suskwa Chiefs, to acquire up to 40% of the facility. The plant is strategically located less than three kilometres from the provincial transmission grid and will draw from what has been described as one of the best fibre baskets in the province, primarily utilizing decadent (dead) standing timber as well as biomass waste from existing logging operations in the area, for its fibre supply.

In June 2008, the Corporation announced that Tsilhqot'in Power Corp. (Western Biomass and Tsilhqot'in National Government) completed a detailed engineering study as well as a fibre supply analysis for the 60 MW project and submitted details to BC Hydro's Phase 1, Bioenergy Call for Power. The Corporation, through PNBC, completed a similar fibre supply analysis for the 30MW Suskwa power project and submitted details to BC Hydro's Phase 1 Bioenergy Call for Power.

Western Biomass, together with the Tsilhqot'in National Government ("TNG") and the Suskwa Chiefs Economic Corp. ("Suskwa"), submitted proposals to BC Hydro for the two projects referred to above, in response to the first phase of its two-phase Bioenergy Call for Power, to supply energy generated from forest based biomass. In addition, applications have been filed with the BCTC for feasibility interconnection studies related to the projects. Western Biomass received confirmation that its two biomass projects have met all the requirements necessary to bid into the first phase of BC Hydro's two-phased 2008 Bioenergy Call for Power. The public announcement of successful candidates is expected shortly. The Corporation does not expect being awarded contracts under Phase 1; accordingly, it is preparing to submit its two proposals into Phase 2. The Corporation anticipates Phase 2 will be announced by the end of the fourth quarter of this year.

## INDUSTRY FACTORS

### Provincial

Despite its vast hydro-electric resources, over the last few years, BC has become a net importer of electricity and is facing a very significant supply-demand gap. BC Hydro has projected energy generation deficits of up to 1400 MW by 2015. In response to this growing shortfall, the provincial government enacted its Energy Plan in 2007 to aggressively seek out more green power. In addition to becoming energy self-sufficient by 2016, the BC Energy Plan also includes the goals of having 90% of the province's electricity generated from clean sources, as well as having all new generation with zero net Greenhouse Gas (GHG) emissions, with overall emissions dropping 33% by 2020 from 2007 levels.

The Energy Plan is expected to have a significantly positive influence on renewable independent power producers, such as Run of River. By 2016, it is estimated that 30,000 GWh of new generation from clean sources will be required. Smaller hydroelectric projects, typical of the variety being developed by the

Corporation, are generally recognized as faster and cheaper to build than large dams and are more environmentally friendly.

In supporting the BC Energy Plan, the government initiated three programs for power acquisition. These include:

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

Key dates relating to the 2008 Call for Clean Power include the following:

Proposal submission	November 25, 2008
Release of Feasibility Interconnection Study or Preliminary Interconnection Study, as applicable	February 23, 2009
Final Evaluation and EPA awards	Mid-April through June 2009

\*Schedule reproduced from the BC Hydro Call For Clean Power.

**Federal**

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

## **RESULTS OF OPERATIONS**

The Corporation recorded a net loss for the third quarter of 2008 of \$277,719 compared to \$43,788 for the same period of 2007. Funds used in operations were \$71,357 for the third quarter of 2008 compared to funds generated of \$137,716 for the same period of 2007.

### **Revenues**

The Corporation recorded revenue of \$664,168 during the quarter compared to \$724,409 for the same quarter of 2007. Total production for the third quarter was 11,484 MWh compared to 12,674 MWh in 2007. The slower than expected snowpack melt conditions and unscheduled maintenance at the Corporation's Brandywine generating facility during Q2 of this year continued into the early part of the third quarter. Snowpack melt conditions have since returned to normal, repairs have been completed and the facility has resumed generating electricity at its rated capacity.

### **General and Administration**

General and administration ("G&A") expense of \$433,695 during the third quarter of 2008 was \$130,750 or 43% higher than G&A expense of \$302,945 during the third quarter of 2007. The higher G&A costs were attributable to increased staffing and administration associated with accelerated development initiatives.

### **Depreciation**

Depreciation and amortization expenses of \$159,416 during the third quarter of 2008 remained comparable to depreciation and amortization of \$157,438 for the same quarter of 2007.

### **Interest expense**

The Corporation incurred net interest expense of \$176,711 during the third quarter of 2008 compared to \$87,754 for the same quarter of 2007. The increase of \$88,957 or 101% was the result of less interest income earned on excess cash which was used to fund increased development initiatives in 2008.

### **Cash Restrictions**

The Corporation's long term debt obligations require it to set aside, as restricted cash, a debt service reserve and a major maintenance reserve that requires annual contributions, and can be drawn down only to fund major maintenance costs. As of September 30, 2008, these two reserves account for \$574,659 of the Corporation's restricted cash (\$527,769 at December 31, 2007).

### **Changes in Financial Condition**

During the quarter, cash and marketable securities decreased by \$975,989 to \$5.1 million. Funds were deployed to advance projects under development and for operating activities. Ninety-five percent of the marketable securities held by the Corporation consist of Canadian money market securities. The Corporation currently has no exposure to asset backed commercial paper.

### **Risks or Uncertainties**

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

## SELECTED QUARTERLY FINANCIAL INFORMATION

(\$000's)	2008			2007				2006
	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Revenues	664	477	109	563	724	693	221	120
Net loss	(278)	(464)	(768)	(644)	(44)	(200)	(482)	(594)
Basic and diluted loss per share	(0.00)	(0.01)	(0.01)	(0.01)	(0.00)	(0.01)	(0.01)	(0.02)

### Liquidity and Capital Resources

At September 30, 2008, the Corporation had \$5.1 million in cash and marketable securities on hand. These cash resources will be used to carryout development of the Upper Pitt and Mamquam watersheds and the two biomass projects. Final regulatory approval of any of the facilities in development will require additional funds that will likely exceed the current resources of the Corporation. Additional financing in some form will be required. The completion of any of the projects in development is also expected to have a material impact on the Corporation's future operational results and cash flows.

The Corporation currently foresees no impediments to its ability to meet its ongoing requirements and its development activities. The Corporation maintains a restricted cash account with respect to its debt facility. The covenants and restrictions regarding this facility are in full compliance.

Commitments of capital expenditures will be wholly dependent on the successful completion of proposed projects. The success of these projects is dependent upon receiving the necessary water and other licences, the ability of the Corporation to obtain necessary financing to successfully complete the development and construction of the projects, the ability to economically generate electrical power and its ability to sell the electricity generated on a profitable basis to BC Hydro under EPA's. No additional projects of the Corporation have, at this point, received final approval.

### Acquisitions

#### Acquisition of 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 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 (referred to as the Tsilhqot'in Biomass Project) 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.

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

#### **Acquisition of 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"). In connection with the acquisition, a total of 4,000,000 shares of the Company were issued to the shareholders of PNBC. 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.
- 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.

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

All shares issued to the PNBC shareholders are subject to a hold expiring on January 17, 2009.

In September 2008, 2,000,000 shares were released from escrow subsequent to the completion of the first stage described above.

The acquisition (referred to as the Suskwa Biomass Project) is accounted for using the 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	\$ 1,043,679
Accounts payable and accrued liabilities	(203,679)
	<u>\$ 840,000</u>
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Consideration:	
Common shares – 4,000,000 shares valued at \$0.21 per share	\$ 840,000

The amounts recorded on the acquisitions above 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.

### Related-Party Transactions

During the third quarter of 2008, the Corporation incurred the following expenses with officers, directors, and companies with directors in common:

	Quarter Ended September 30, 2008	Quarter Ended September 30, 2007
Consulting	\$ -	\$ 47,275
Directors' fees	4,250	7,250
Wages and benefits	175,260 *	31,833
	<u>\$ 179,510</u>	<u>\$ 86,358</u>

\* \$73,491 of this amount was capitalized during the period.

At September 30, 2008, the Corporation was owed \$96,578 (2007- \$96,578) by Rockford Technology Corporation with respect to an unsecured loan which bears interest at 9%. The original loan became due on September 17, 2006 but was extended for two years under the same terms and was further extended to December 17, 2008. Interest in the amount of \$17,384 has been paid. Also included in due from related parties of \$412,122 (December 31, 2007 - \$271,337) are \$80,355 (December 31, 2007 - \$Nil) due from shareholders of PNBC (Suswa Biomass Project) and \$233,692 (December 31, 2007 - \$Nil) due from the partners of a joint venture (Tsilhqot' in Biomass Project) entered into by Western Biomass. These advances are repayable on demand and bear no interest.

Included in the accounts payable of the Corporation are \$13,728 (December 31, 2007-\$8,974) payable to directors and an officers.

## **CRITICAL ACCOUNTING ESTIMATES**

### **Measurement Uncertainty**

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

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

The Corporation capitalizes costs of developing its power generation projects. The recovery of those costs is dependent on the ability of the Corporation to obtain EPA's from BC Hydro and successfully construct the projects in an economic fashion. The Corporation believes that costs capitalized in respect of these projects are not impaired and no adjustment to carrying values is necessary at this time.

## **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.

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.

### **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.

## Capital disclosures

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

	September 30, 2008	December 31, 2007
Components of Capital:		
Shareholders' equity	\$ 21,182,180	\$ 19,911,375
Long – term debt	11,636,723	11,909,914
Less:		
Cash and cash equivalents	(5,698,027)	(9,721,174)
	\$ 27,120,876	\$ 22,100,115

The Corporation's objectives when managing capital are:

- balance the interest of equity and debt holders;
- maintain compliance with its financial covenants; and
- maintain a capital base so as to maintain investor, creditor and market confidence and to sustain future development.

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

The Corporation monitors capital using a Debt Service Coverage Ratio that has been externally imposed as part of the loan agreement. The Corporation is required to maintain a four quarters rolling average Debt Service Coverage Ratio not less than 1.00:1. 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
Q3 2008	1.20
Four quarters rolling average – December 31, 2007	1.50
Four quarters rolling average – September 30, 2008	1.00

As at September 30, 2008, June 30, 2008, and March 31, 2008, the Corporation complied with the terms of the credit facilities.

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

### **Fair value of financial instruments**

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

The Corporation designated cash, restricted cash and marketable securities as held-for-trading assets, measured at fair value. Amounts receivable are measured at amortized cost. Accounts payable and accrued liabilities and long-term debt are designated as other financial liabilities and measured at amortized cost. Management did not identify any material embedded derivatives, which require separate recognition and measurement under the new accounting standards. The Corporation had neither available-for-sale, nor held-to-maturity instruments during the period ended September 30, 2008.

### **RISK MANAGEMENT**

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

In the normal course of operations, the Corporation 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 Corporation 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 Corporation 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; and
- 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 Corporation manages those risks from the prior period.

### **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.

### **Interest rate risk**

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

### **Credit risk**

Credit risk is the risk of loss if counterparties do not fulfil their contractual obligations and arises principally from trade receivables. The maximum exposure to credit risk is the carrying amount of amounts receivable principally from BC Hydro for the sale of production from the Company's Brandywine Creek facility. BC Hydro is a rated, credit worthy counterparty and amounts receivable are current as of June 30, 2008.

**Liquidity risk**

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. The Corporation mitigates this risk through actively managing its capital, which it defines as shareholders' equity, long term debt, net of cash 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 Corporation strives to balance the proportion of debt and equity in its capital structure given its development assets and planned investment opportunities.

The current volatile economic and financial conditions have impacted the availability of financing for the Corporation's development initiatives. Furthermore, the associated terms have changed to reflect the increased risk. It is the Corporation's view that project financing will be available for the development projects 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 Corporation's development projects facilitates completion of financing in these circumstances.

**Operating risk**

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

**OUTSTANDING SHARE DATA**

Total issued common shares at December 31, 2007	61,952,207
Issued on business acquisition during first quarter	3,780,301
Issued on business acquisition during third quarter	4,000,000
Total issued common shares at November 27, 2008	69,732,508
Outstanding warrants	31,760,000
Outstanding share options	5,070,000
Total diluted common shares at November 27, 2008	106,562,508

**ABBREVIATIONS**

GWh Gigawatt hour

MW Megawatt

kV Kilovolt