

Minerco Resources, Inc.
Form 10-K
November 15, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

ANNUAL REPORT UNDER TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 FOR THE FISCAL YEAR ENDED JULY 31, 2010

Commission File Number: 333-156059

MINERCO RESOURCES, INC.
(Exact name of registrant as specified in its charter)

NEVADA
(State or other jurisdiction of incorporation or organization)

16225 Park Ten Place
Suite 500
Houston, TX 77084
(Address of principal executive offices, including zip code.)

(281) 994-4187
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Securities Act: NONE
Securities registered pursuant to section 12(g) of the Securities Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if

any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	<input type="radio"/>	Accelerated Filer	<input type="radio"/>
Non-accelerated Filer	<input type="radio"/>	Smaller Reporting Company	<input checked="" type="radio"/>

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES NO

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of November 12, 2010: \$949,293.

At November 12, 2010, 347,045,000 shares of the registrant's common stock were outstanding.

TABLE OF CONTENTS

Page No.

PART I

- Item 1. Business
- Item 1A. Risk Factors
- Item 1B. Unresolved Staff Comments
- Item 2. Properties
- Item 3. Legal Proceedings
- Item 4. Removed and Reserved

PART II

- Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities
- Item 6. Selected Financial Data
- Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
- Item 7A. Quantitative and Qualitative Disclosures About Market Risk
- Item 8. Financial Statements and Supplementary Data
- Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure
- Item 9A. Controls and Procedures
- Item 9B. Other Information

PART III

- Item 10. Directors, Executive Officers and Corporate Governance
- Item 11. Executive Compensation
- Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters
- Item 13. Certain Relationships and Related Transactions, and Director Independence
- Item 14. Principal Accountant Fees and Services

PART IV

- Item 15. Exhibits, Financial Statement Schedules
Signatures
Exhibit Index

PART I

ITEM 1. BUSINESS.

Forward-Looking Statements

This annual report contains forward-looking statements. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as “could”, “may”, “will”, “should”, “expects”, “plans”, “anticipates”, “believes”, “estimates”, “predicts”, “potential” or “continue” or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable laws, including the securities laws of the United States, we do not intend to update any of the forward-looking statements so as to conform these statements to actual results.

As used in this annual report, the terms “we”, “us”, “our” and “Minerco” mean Minerco Resources, Inc., unless otherwise indicated.

All dollar amounts in this annual report refer to U.S. dollars unless otherwise indicated.

Overview

Our principal offices are located at 16255 Park Ten Place, Suite 500, Houston, Texas 77084. Our telephone number is 281-994-4187. Information about our business can be obtained from our website www.minercoresources.com.

History

Minerco Resources, Inc., was incorporated as a Nevada company on June 21, 2007. We were originally engaged in the acquisition of interests and leases in oil and natural gas properties. On March 30, 2010, the Company effected a 6 for 1 forward stock split, increasing the issued and outstanding shares of common stock from 55,257,500 to 331,545,000 shares. All share amounts throughout this registration statement have been retroactively adjusted for all periods to reflect this stock split. In May 2010 we changed our focus away from the oil and gas business to that of the development of production and provision of clean, renewable energy solutions in Central America.

Our registration statement on Form S-1 registering an aggregate of 142,545,000 shares of our common stock on behalf of 35 selling shareholders became effective on February 6, 2009. The 142,545,000 shares offered for resale included 12,000,000 shares owned by Wisdom Resources, Inc., a company over which Michael Too, our former President, Chief Executive Officer, Chief Financial Officer, Principal Accounting Officer, Secretary, Treasurer and sole director, has sole voting and investment power. We did not receive any proceeds from the resale of these shares by the selling security holders. We incurred all costs associated with the registration statement.

The Project

On May 27, 2010, we acquired 100% of the 6 mega-watt per hour (MWh) Chiligatoro Hydro-Electric Project (“Chiligatoro”) in Intibuca, Honduras. The Project is classified as a run-of-the-river project (not a conventional retention dam) and is currently in the Feasibility Stage of development. Acquisition in this phase of development allows Minerco Resources, Inc. (“Minerco”) to have full control of the Final Design and Construction. To date, the construction of the Chiligatoro has not started, and we have not received any revenues from the project. There is no assurance that the Chiligatoro will be completed in a timely manner, if at all. Additionally, if the Chiligatoro is completed, there is no guarantee that it will be successfully used to create electricity or that it will generate a consistent revenue stream for us.

On June 28 2010 the Chiligatoro Hydro-Electric Project received approval from the National Energy Commission, which includes a signed the 30 Year Operations Contract with Ministry of Natural Resources and the Environment (SERNA) and is currently negotiating its Power Purchase Agreement (PPA) with The Empresa Nacional de Energia Electrica (ENEE), the Honduran government owned electric power company. The Project is awaiting final approval from the Honduran National Congress. This Congressional Approval acts as a “defacto” guarantee. This approval makes Chiligatoro’s Power Purchase Contracts a recorded law in the Honduran National Congress. Final approval and start of construction is anticipated by 2011.

The revenue for the Chiligatoro Project (or any hydro project) is expected to be generated from:

Ø Power Generation Sales

§ Chiligatoro Example: $6 \text{ MWh} \times 24 \text{ hr/day} \times \$108 / \text{MWh} = \text{US\$ } 15,550 / \text{day}$ or US\$ 5,675,000 per year of Gross Energy Generation Revenue

Ø Carbon Credits

§ Carbon Emission Reduction (CER) Credits can be pre-sold or traded on the open market. The spot price is currently over US\$ 10 per Credit. Carbon Credits are relatively new but are measured in tonnes of CO₂.

§ The Chiligatoro Project will eliminate approximately 27,000 tonnes of CO₂.per year, or earn 27,000 CER Credits annually. $27,000 \text{ CER /year} \times \$10 / \text{CER} = \text{US\$ } 270,000$ per year.

Ø Reforestation in Project Buffer Zone

§ Reforestation generates revenue directly and indirectly. Planting tropical hardwood trees such as mahogany will generate direct revenue in less than 20 years. Current prices yield more than US\$ 8,000 per tree.

§ More importantly, reforestation of the Project’s Buffer Zone (water supply zone) increases the Projects total efficiency within a couple years adding additional power generation revenue. This increase in efficiency is typically 2 – 3%. Additional CER Credits are also realized with reforestation.

The Agreement with ROTA INVERSIONES S.DE R.L

On May 27, 2010, we acquired the rights to the Chiligatoro Project from ROTA INVERSIONES S.DE R.L., a Corporation formed under the laws of Honduras (the "Seller"). Pursuant to the terms of an acquisition agreement, we agreed to pay the Seller a total of 18,000,000 shares of our common stock for 100% of all right, title and interest in and to the Chiligatoro Project payable as follows: 9,000,000 shares of our common stock within 3 days of closing, 4,500,000 shares of our common stock within 180 days of closing and 4,500,000 shares of our common stock upon the Company's raising of \$12,000,000 no later than 24 months after closing. We also agreed to pay the Seller a royalty of 10% of the adjusted gross revenue, derived after all applicable taxes, from the Project prior to completion of the payment of the foregoing. Further, we agreed to pay the Seller a royalty of 20% of the adjusted gross revenue, derived after all applicable taxes, from the Project after the completion of the payout for the life of the Project, including any renewal, transfer or sale, if any, in perpetuity. "Payout" is defined as, all associated costs related to the development of the Project. If the Company is unable to obtain the financing requirements of this agreement, Seller shall have the right to terminate this agreement with full rights of rescission, and all rights, title and interest to the Project shall be transferred back to the Seller.

Business Plan

Minerco plans to concurrently:

- Ø Develop & Construct New, Ground floor Projects
- Ø Acquire existing Projects in various stages of development
- Ø Acquire existing Projects with Operations (already generating power)
- Ø Acquire rights to future Projects in Private & Public Sector
- Ø Expand Scope of Operations to additional Latin Countries

Benefits of Clean, Renewable Energy Projects in Latin America

Due to growing concerns of energy security and climate change, the Central American Region has widely adopted a shift toward Clean, Renewable Energy generation. Most countries rely on fossil fuels for the majority of power generation. Very few countries in the region have native fossil fuel resources and spend huge portions of their budgets on "dirty" energy generation. However, they do have the natural resources for "clean" renewable, sustainable energy creation. In fact, these renewable natural resources are abundant, but they are underdeveloped and largely unexploited. According to Central American Data the annual energy demand in Central America is expected to increase by approximately 6% over the next half decade and the Inter American Development Bank estimates that more than 7 billion dollars in investment will be needed to meet this demand. In order to encourage stimulate renewable energy investment and development in Central America the major markets have introduced or adopted additional regulatory and fiscal incentives. In addition, many countries have introduced measure to limit carbon emissions, making renewable energy more desirable.

Honduras has over 100 approved, renewable energy projects. The project locations and government issued rights have been assigned and transferred to these entrepreneurs, but almost 90% of the projects are not developed and will not be built anytime soon. The country and its entrepreneurs lack the money to even complete Feasibility Studies on these

projects. They lack equity or collateral to obtain standard bank loans and lack the relationships to further their projects alone.

Additionally, the incentives for clean energy generation in these countries are plentiful. Latin American countries are hungry to develop clean energy and have created numerous incentives to promote and streamline development. Region-wide incentives include income tax holidays, no duty on imports for construction, price premiums and payment guarantees.

Clean Energy Incentives in Honduras

We have chosen Honduras as our initial country of focus because it has a vast quantity of natural resources, opportunities and incentives to launch Minerco into the “green” future. Honduras has been very proactive in the promotion of its energy renewable sources and offers one of the most attractive incentive packages in Central America with long term purchase agreements, tax exemptions, an additional payment for the energy generated by renewable energy and a dispatch guarantee. Our management team has developed extensive relationships in Honduras, both in the private and public sectors. In addition, Honduras has adopted some of the most profitable incentives for clean energy within the region. Incentives include:

- Ø Clean Energy Price (10% over “dirty” marginal cost, currently \$108 /MWh)
 - Ø Payable in US\$ (to counter currency fluctuations)
- Ø Contract Guarantee from National Congress (mitigate Political/Country risk)
 - Ø No import or sales taxes on construction materials
 - Ø No sales tax on electricity sales
 - Ø Income tax holiday (10 years)
- Ø Clean energy required to be purchased first by power grid (Honduras law)

Competition

The renewal energy industry is highly competitive and characterized by rapid change resulting from technological advances and scientific discoveries. Not only will we compete with other hydro electric power generation companies, but we will also compete with producers and suppliers of other forms of energy such as fossil fuel and oil. We will compete in the Central American domestic market with other Central America power generation companies. We face direct competition from Meso America Energy, Globeleq Power, Aggreko, Wartsila, Energy of Central America, Hidrocep Honduras, Hidrocci and face indirect competition from several companies that offer alternative products. These power companies and a number of other power producers have substantially greater financial, infrastructure or other resources than we do. We may also face competition from new entrants to the hydropower industry having business objectives similar to ours, including venture capital and private equity funds, leveraged buyout funds, and other operating businesses that may offer more advanced technological capabilities or that have greater financial resources. The ability of our competitors to access resources that we cannot access may prevent us from acquiring additional hydropower projects in strategic locations or from increasing our generating capacity. There is also increasing competition among operating power plants for increases in dispatched output, higher on-grid tariffs and land use rights. If we are unable to compete successfully, our growth opportunities to increase generating capacity may be limited and our revenue and profitability may be adversely affected. In recent years, the ongoing reform of the Central American power industry has included experimental programs to set on-grid tariffs through competitive bidding among thermal power plants. The tariffs determined by competitive bidding may be lower than the pre-approved tariffs for planned output. In the future, competitive bidding may extend to hydroelectric power plants and further increase price competition among domestic power generation companies.

We also compete with producers and manufacturers of other sources of energy. The demand for power plants that produce electricity from renewable energy sources such as water depends in part on the cost of generation from other sources of energy. The terms under which supplies of petroleum, coal, natural gas and other fossil fuels, as well as uranium, can be obtained are key factors in determining the economic interest of using these energy sources rather than renewable energy sources. The principal energy sources in competition with renewable energy sources are petroleum, coal, natural gas and nuclear energy. The record price levels for fossil fuels, in particular, petroleum and natural gas, enhanced the price competitiveness of electricity from renewable energy sources in 2008. A decline in the competitiveness of electricity from renewable energy sources in terms of cost of generation, technological progress in the exploitation of other energy sources, discovery of large new deposits of oil, gas or coal, or the recent decline in prices of those fuels from historically high levels, could weaken demand for electricity generated from renewable energy sources.

In the renewable energy sector, competition primarily exists with regard to factors such as bidding for available sites, performance of sites in generation, quality of technologies used, price of power produced and scope and quality of services provided, including operation and maintenance services. A decline in the competitiveness of electricity generated from hydroelectric sources in terms of such factors could weaken demand for hydroelectric power.

Funding

To date, we have met our financing needs through private sale of shares of our common stock and other equity securities and loans from investors. If our revenue from sales is not sufficient to meet our ongoing expenses we will need additional financing.

Employees

As of July 31, 2010, we had 1 full time employee and 5 consultants. We currently expect to hire approximately 10-15 employees over the next 12 months, which will cause us to incur additional costs.

Property

Our principal office is located at 16255 Park Ten Place, Suite 500, Houston, Texas 77084. This space consists of approximately 150 square feet. On May 25, 2010, we signed a lease with Tower Executive Suites for six months at a monthly rate of \$1,065. On September 20, 2010, we amended the lease with Tower Executive Suites for a new sixth month term beginning October 1, 2010 at a monthly rate of \$140. We believe these facilities are adequate to serve our present needs.

INDUSTRY OVERVIEW

REGULATION

All of our power plants in Central America will be subject to extensive regulation by the Central American governmental authorities, including central governmental authorities such as the Ministry of Commerce, the State Administration for Industry and Commerce, the National Development and Reform Commission, the State Electricity Regulatory Commission, the State Administration of Taxation, the Ministry of Environmental Protection, the Ministry of Communications and Transportation, the Ministry of Water Resources, the Ministry of Land and Resources and the Ministry of Housing and Urban-Rural Development, as well as their provincial and local counterparts. Government regulations will address virtually all aspects of our operations, including, among others, the following:

- planning and construction of our plant in Chiligatoro and new power plants;
- the granting of power generation, dispatch and supply permits;
- the amount and timing of power generation;
- the setting of on-grid tariffs paid to power producers and power tariffs paid by consumers of electricity;
- power grid control and power dispatch, including the setting of preferential policies for the dispatch of renewable energy generated power;
- allocation of water resources and control of water flows;
- environmental protection and safety standards;
- acquisitions by foreign investors; and
- taxes, in particular Enterprise Income Tax and Value Added Tax.

Our costs of compliance with, and reliance on, this regulatory system will be significant to our business. An increase in the cost of compliance could increase our operating costs and expenses and materially and adversely affect our results of operations. Moreover, policy movements against renewable energy power producers could limit our opportunities for growth and materially and adversely affect our revenues.

We will also be required to obtain a permit from the State Electricity Regulatory Commission prior to operating any plant. A new permit system was established in 2005, which requires all existing and new power generating, dispatching and supplying companies to obtain permits from the State Electricity Regulatory Commission. The State Electricity Regulatory Commission has been in the process of implementing the new permit system. By the end of 2008, the State Electricity Regulatory Commission had issued 6,170 power generating permits. We have submitted applications for power generation permits for our plant being constructed, but have not yet received the permits. The granting of a power generation permit for a new power generation project is a time-consuming and complicated process. A failure to obtain a power generation permit may have a material adverse effect on our business operations, including the forfeiture of income and the imposition of fines.

ITEM 1A. RISK FACTORS.

Investing in our common stock involves a high degree of risk, and you should be able to bear the complete loss of your investment. You should carefully consider the risks described below, the other information in this Prospectus, the documents incorporated by reference herein and the risk factors discussed in our other filings with the Securities and Exchange Commission when evaluating our company and our business. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known by us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business could be harmed. In such case, the trading price of our common stock could decline and investors could lose all or a part of the money paid to buy our common stock.

RISK FACTORS

An investment in our securities involves significant risks. You should carefully consider the risks described below, together with all of the other information in this prospectus, including our consolidated and other financial statements and related notes, and the financial statements of our acquired subsidiaries, included elsewhere in this prospectus, before you decide to purchase our securities. If any of these risks actually occurs, our business, prospects, financial condition or results of operations could be materially and adversely affected, the trading price and value of our securities could decline and you could lose all or part of your investment.

Risks Relating to our Company and the Central American Hydropower Industry

We have a limited operating history which provides limited reference for you to evaluate our ability to achieve our business objectives.

Our company has a limited operating history, is subject to the risks and uncertainties associated with early stage companies and has historically operated at a loss. Accordingly, you will have a limited basis on which to evaluate our ability to achieve our business objectives. We were formed in July 2007 as a Nevada Corporation without any operating business. Until May 2010 we were engaged in the oil and gas business when we switched our focus to the provision of renewable energy. We have acquired the rights to a single hydropower electric plant and will seek to carry out our acquisition strategy in Central America. Our financial condition, results of operations and our future success will, to a significant extent, depend on our ability to successfully develop the Chiligatoro Project and our ability to continue to acquire the rights to hydroelectric projects throughout Central America, obtain the necessary governmental approvals of those projects, and obtain financing to build those projects. We cannot assure you that we will be able to complete the Chiligatoro Project or that any additional acquisitions can be consummated on terms favorable to us or at all, or that if we achieve those acquisitions we will be able to operate our expanded business profitably. We also may not successfully complete the Chiligatoro Hydro Electric project we have undertaken to develop given our lack of experience developing hydro-electric projects, which refer to projects that lack one or more construction permits and have not begun construction.

We may not be profitable.

We expect to incur operating losses for the foreseeable future. The construction of the Chiligatoro Plant and the obtainment of the regulatory approvals necessary to operate such plant, which are crucial to our future success, has required and will continue to require significant expenditures. These expenditures will result in a loss until adequate revenues are derived from the operations of the Chiligatoro Plant. For the year ended July 31, 2010 we had no revenue and sustained a net loss of \$123,810. Our ability to become profitable depends on our ability to have successful operations and generate and sustain sales, while maintaining reasonable expense levels, all of which are uncertain in light of our limited operating history in our current line of business.

If we fail to achieve our business objectives, then we may not be able to realize our expected revenue growth, maintain our existing revenue levels or operate at a profit. Even if we do realize our business objectives, our business may not be profitable in the future.

We may not be able to continue as a going concern.

The opinion of our independent registered accounting firm for our fiscal years ended July 31, 2010 and July 31, 2009 is qualified subject to substantial doubt as to our ability to continue as a going concern. See "Report of Independent Registered Public Accounting Firm" and the notes to our Financial Statements. During the year ended July 31, 2010 we incurred \$134,109 of total expenses, had a net loss of \$123,809 and at July 31, 2010 had an accumulated deficit of \$236,056 and stockholders' equity of \$591,140. During the year ended July 31, 2009 we incurred \$48,258 of total expenses, had a net loss of \$78,258 and at July 31, 2009 had an accumulated deficit of \$112,247 and a stockholders' deficit of \$1,733.

We currently do not have an operating plant and only have the rights to construct a plant in one territory, making us dependent on one plant for our income.

To date, we only have acquired rights to one project in Honduras which is in the process of being constructed and therefore, initially all of our revenue will be derived from this one plant. If we should experience construction delays or fail to obtain necessary regulatory approvals, our operations will not commence when anticipated, if at all. If we experience operational problems at such plant or demand or operational problems in Honduras, our revenue will be adversely impacted. Our success will be dependent upon our ability to expand our territory and our ability to apply our plans used in our current territory to a broader territory. Our inability to expand our territory will have an adverse impact on our anticipated revenue.

We may be adversely affected by the slowdown of Central American economy caused in part by the recent global crisis in the financial services and credit markets.

It is uncertain how long the global crisis in the financial services and credit markets will continue and the impact this will have on the global economy in general and the economy of Central America in particular. We are currently unable to estimate the impact the slowing of the Central American economy will have on our business. Reduction in demand we anticipate for electricity generated by our hydropower plants would have a material and adverse effect on our financial condition and results of operations.

Our business is dependent upon hydrological conditions, which may from time to time result in conditions that are unfavorable to our business operations.

Our hydroelectric power generating prospects will be dependent upon hydrological conditions prevailing from time to time in the broad geographic regions in which our existing and future hydropower plants are located. There can be no assurance that the water flows at our existing and future sites will be consistent with our expectations, or that climatic and environmental conditions will not change significantly from the prevailing conditions at the time our projections were made. Water flows vary each year, and depend on factors such as rainfall, snowfall, rate of snowmelt and seasonal changes. Our existing and future hydropower plants may be subject to substantial variations in climatic and hydrological conditions which may reduce water flow and thus our ability to generate electricity. While we have selected and will continue to select our hydropower plants for acquisition in part on the basis of their projected outputs, the actual water flow required to produce those outputs may not exist or be sustained. If hydrological conditions result in droughts or other conditions that negatively affect our existing or proposed hydroelectric generation business, our results of operations could be materially and adversely affected.

The operation of our hydropower plants and customer demand for our power may be vulnerable to disruptions caused by natural and man-made disasters, which may materially and adversely affect our results of operations.

Our plants could be required to cease operating in the event of a drought, and to cease operating or even be damaged in the event of a flood. Water supply to our power plants and the plants themselves are vulnerable to natural disasters including, but not limited to, earthquakes, storms, tornadoes and floods, as well as disasters caused by human actions such as terrorist attacks, military conflicts and other deliberate or inadvertent actions which may affect the availability of water supplies or water flow to our power plants. Such disasters are unpredictable and can significantly damage our access to water supply and power plant equipment as well as the property of our consumers. Under such circumstances, market demand for power in general may be significantly adversely affected, reducing the need for the electricity we produce, and we may be unable to continue operation of our plants or to produce the level of electricity we expect. The insurance coverage we maintain may not be adequate to compensate us for all damages and economic losses which may arise in connection with these disasters. Such disruption to our operations could materially and adversely affect our results of operations.

We may encounter difficulties in identifying suitable acquisition opportunities, which would result in us being dependent upon a limited number of hydropower plants and having limited revenue growth potential.

Our ability to implement our acquisition strategy will depend on a number of factors, in particular, our ability to identify suitable acquisition targets and reach agreements with vendors for acceptable consideration and on commercially reasonable terms. We believe identifying and acquiring projects on reasonable terms may be more difficult in the future as domestic and international competitors seek to acquire small hydropower plants in Central America.

If we are unable to acquire suitable hydropower projects in Central America, we will continue to remain dependent upon our one plant not yet constructed. The resulting lack of diversification may:

- result in our dependence upon the performance of our one plant not yet constructed;
- result in our dependence upon electricity sales in limited geographical areas;
- subject us to increased risks associated with drought or other natural disasters in a particular geographical area; and
- limit our ability to grow our revenues and to obtain the benefits of scale that we anticipate.

In such event, we will not be able to diversify our operations to spread risks or offset losses, unlike other entities that may complete acquisitions in different geographical areas, different industries or different segments of a single industry.

Greenfield projects and projects under construction present substantial development, construction, start-up and partnership risks, which could materially and adversely affect our results of operations, financial condition and growth prospects.

Greenfield projects, in particular the Chiligatoro Hydroelectric project, and projects under construction, present substantial development risk. The development and construction of hydropower plants is time-consuming and complex and requires significant capital investment. In connection with the development and construction of hydropower plants, we will seek to obtain government permits and approvals, land purchase or leasing agreements,

equipment procurement and construction contracts, operation and maintenance agreements, and sufficient equity capital and debt financing. Factors that may impair our ability to develop and construct hydropower plants include:

-11-

- delays in obtaining various regulatory approvals, licenses or permits from different governmental authorities at different levels, including permission for the construction and operation of the hydropower plant itself, the environmental permits and permits to use the relevant land;
- shortages or increases in the cost of equipment, materials or labor;
- adverse weather conditions, which may delay the completion of hydropower plants or substations, or natural disasters, accidents or other unforeseen events;
- unforeseen engineering, design, environmental or geological problems;
- opposition of local interests;
- strikes and labor disputes;
- inability to obtain financing on satisfactory terms; and
- adverse changes in the Central American regulatory environment.

Any of these factors may cause delays in completion of hydropower plants and may increase the cost of contemplated projects. If we are unable to complete the projects contemplated, the costs incurred in connection with such projects may not be recoverable. Even if we complete these projects, as a result of project delays, cost overruns, changes in market circumstances or other reasons, we may not be able to achieve the intended economic benefits or demonstrate the commercial viability of these projects, which may materially and adversely affect our results of operations, financial condition and growth prospects.

In addition, the commencement of operations at a newly constructed hydropower plant involves many risks, including start-up problems, the breakdown or failure of equipment or processes, performance below expected or contracted levels of output or efficiency and problems with the construction of new supporting infrastructure, such as grid transmission equipment. While manufacturers' warranties are generally obtained for limited periods relating to each project and its equipment in varying degrees, and construction contractors may guarantee certain performance levels, subject to the payment of liquidated damages, the proceeds of such warranties or performance guarantees, if any, may not be adequate to cover lost revenues or increased costs and expenses associated with equipment problems during project start-up. We also may develop projects with local development partners, which exposes us to risks associated with our partners' failure to retain development rights, obtain permits and approvals required for the development of a project or perform their management, construction or financing obligations. Realization of any of these risks could materially and adversely affect our results of operations, financial condition and growth prospects.

We expect to derive our revenues solely from the sale of hydropower electricity and each of our plants will typically has only one customer. Any prolonged disruption to the demand for hydropower or termination of a customer relationship may cause our revenues to decrease significantly.

We expect to derive revenues solely from the sale of electricity generated by hydropower plants, and most of our power is expected to be sold to one of two national power grids. If for any reason the national power grids reduce or eliminate their purchases of hydropower, whether due to the emergence of a cheaper renewable energy source,

withdrawal of government policy support for the dispatch of renewable energy or a severe drop in the Central American demand for power, we may not have alternative customers readily available to us. Without alternative sources of income, our revenues would decrease significantly should a reduction in demand for hydropower or lack of customers continue for a prolonged period.

We depend on the experience of our executive officers and our business may be severely disrupted in the event that we lose their services and are unable to find replacements with comparable experience and expertise.

We believe that our future success is dependent upon the continued services of our executive officers, as we rely on their industry experience and expertise in our business operations. In particular, we rely heavily on V. Scott Vanis, our President and Chief Executive Officer and member of the Board of Directors and Sam J Messina III, our Chief Financial Officer, Secretary, Treasurer and member of the Board of Directors, for their business vision, management skills and technical expertise in the hydroelectric industry as well as their working relationships with many of our potential acquisition targets, the power grids we service and other participants in the hydroelectric industry. We do not maintain key-man life insurance for any of our executive officers. If any of these executive officers were unable or unwilling to continue in their present positions, or if they left our company, we may not be able to replace them with comparably skilled executives, which would cause severe disruption to our ability to manage our business. If we are unable to retain or replace our key personnel and other key employees, we may not be able to implement our business strategy and our financial condition and results of operations may be materially and adversely affected.

We will need substantial additional funding to accomplish our growth strategy and may be unable to raise capital on terms favorable to us or at all, which could increase our financing costs, dilute your ownership interests, affect our business operations or force us to delay, reduce or abandon our growth strategy.

Our growth strategy is to acquire and develop additional hydropower projects in Central America and concentrate on those projects with potential for expansion. To successfully implement this growth strategy, we will need to raise substantial additional funds. Our ability to arrange financing and the cost of such financing are dependent on numerous factors, including but not limited to:

- general economic and capital market conditions;
- the availability of credit from banks or other lenders;
- investor confidence in us; and
- the continued performance of our hydropower plants.

We cannot predict when, if ever, our operations will generate any revenue at all or sufficient cash flows to fund our capital investment requirements. Until they do, we will be required to finance our cash needs through public or private equity offerings, equity lines, bank loans or other debt financing, or otherwise. There can be no assurance that international or domestic financing for future power plant acquisitions, development and expansion of existing power plants will be available on terms favorable to us or at all, which could force us to delay, reduce or abandon our growth strategy, increase our financing costs, or both.

Additional funding from debt financings may make it more difficult for us to operate our business because we would need to make principal and interest payments on the indebtedness and may be obligated to abide by restrictive covenants contained in the debt financing agreements, which may, among other things, limit our ability to make business and operational decisions and pay dividends. Furthermore, raising capital through public or private sales of equity to finance acquisitions or expansion could cause earnings or ownership dilution to your shareholding interests in our company.

Assumptions applied to our investment analyses and feasibility studies may not be accurate, and thus our actual return on investments, operational results, and overall growth may be materially and adversely affected.

In performing investment analysis and feasibility studies for our acquisition and development targets, we consider factors such as: (i) demand for power and growth potential in the area where the plant is located, (ii) increase in power generation capacity in the locality, (iii) the average tariff of power plants of similar types and capacity, (iv) quality of transmission systems to the local power grids, (v) facilities and technology at the power plant and (vi) ability to retain existing debt financing for the plant or obtain new financing. However, much of the information we rely on in preparing these analyses is provided by the sellers of the plants. With the rapid development of the Central American hydropower industry in recent years, there is some increased risk of plants being built based on inaccurate or incomplete technical data. As a result, the assumptions we use to perform our internal investment analyses and feasibility studies may not be accurate or complete. If any one of our observations or assumptions, or a combination thereof, proves to be inaccurate, then our estimated returns on investments, operational results and our overall growth may be materially adversely affected.

The operations of our hydropower plants may be adversely affected by the failure of key equipment, civil structures or transmission systems, which could result in lost revenues, increased maintenance costs and our owing damages to our customers for lost revenues.

The breakdown of generation equipment or failure of other key equipment or of a civil structure in one or more of our hydropower plants could disrupt the generation of electricity and result in revenues being lower than expected. Further, any breakdown or failure of one or more of our transmission systems could disrupt transmission of electricity by a power plant to the power grid. Repair of such breakdowns may take one or two days or up to a month, depending on the nature of the problem and availability of spare parts. In addition, if the problem is related to the grid, we will not be able to dispatch our power until the grid carries out the necessary repairs. A portion of the generation facilities that we may acquire in the future, were, or may have been, constructed many years ago. Older generating equipment may require significant capital expenditure to keep it operating efficiently. Such equipment is also likely to require periodic upgrading and improvement. Breakdown or failure of one of our plants also may prevent us from performing under the applicable power sales agreement which, in certain situations, could result in termination of the agreement or incurring liability for liquidated damages. These events may reduce our ability to generate power, resulting in loss of revenues and increased maintenance costs.

Our power generating operations may be adversely affected by operational risks, which may result in uninsured losses.

Operating hydropower plants involves many risks and hazards which may be beyond our control and could cause significant business interruptions, personal injuries and property or environmental damage, and could increase power generating costs at affected hydropower plants for an unknown duration. These risks include but are not limited to:

- failure of power transmission systems;
- unexpected maintenance or technical problems;
- human error;
- failure of our mechanical, software or monitoring systems; and
- industrial accidents.

The occurrence of any of these events, and the consequences resulting from them, may not be covered adequately or at all by our insurance policies. We do not currently carry any third-party liability insurance, business interruption insurance or insurance covering environmental damage arising from accidents on our property or relating to our operations. See “Business — Insurance.” Uninsured losses incurred or payments we may be required to make may have a material adverse effect on our results of operations and financial condition.

Our operations may be interrupted by realization of unexpected risks or difficulties in integrating acquired businesses, which could interrupt our existing business and materially and adversely affect our results of operations.

Our continued growth and ability to leverage our management expertise depend on the successful implementation of our acquisition strategy. We cannot assure you that any particular acquisition will produce the intended benefits. For instance, if we fail to integrate an acquired project into our operations successfully, or the synergies expected from an integration ultimately fail to materialize, then our existing business operations may be interrupted. We may have as a result expended significant management time, capital and other resources to the transaction, which interrupted our existing business operations.

Risks which may be incurred through acquisitions include, but are not limited to:

- potential construction or engineering problems which may expose us to severe economic loss or legal liabilities and require substantial expenditure from us to remediate;
- unforeseen or hidden liabilities, including exposure to legal proceedings, associated with newly acquired companies;
- failure to generate sufficient revenues to offset the costs and expenses of acquisitions;
- potential impairment losses and amortization expenses relating to goodwill and intangible assets arising from any of such acquisitions, which may materially reduce our net income or result in a net loss; and
- possible contravention of Central American regulations applicable to such acquisitions.

We are subject to any one of the risks at the Chiligatoro Plant and additional plants we may acquire. Any one or a combination of the above risks could interrupt our existing business and materially adversely affect our results of operations.

Our growth strategy is dependent upon our ability to manage our growth effectively which, if unsuccessful, could result in a material adverse impact on our financial condition and results of operations.

We hope to expand our business and operations. The success of our growth strategy will depend in part upon our ability to manage our growth, including, for example, our ability to assimilate management of acquired plants into our own management structure, to hire, train, supervise and manage new employees, to establish and maintain adequate financial control and reporting systems and other systems and processes, and to manage a rapidly growing and much larger operation. We cannot assure you that we will be able to:

- expand our systems and processes effectively or efficiently or in a timely manner;
- allocate our human resources optimally or reduce headcount without experiencing community protest, strike or other social unrest;
- identify and hire qualified employees or retain valued employees;
- incorporate effectively hydropower projects in various stages of development that we may acquire;
- maintain good relationship with power grids; or
- centralize and improve the efficiency of the management and operations of the power plants acquired.

If we fail to effectively manage our growth, then our financial condition and results of operations could be materially adversely affected.

If less than all of the electricity we generate is dispatched by the grids, our future anticipated revenues will be reduced.

Our profitability will depend, in part, upon our power plants generating electricity at a level sufficient to meet or exceed the planned generation agreed with our local dispatch company, which in turn will be subject to local demand for electric power and dispatching to the grids by the dispatch centers of the local grid companies.

The dispatch of electric power generated by a power plant is controlled by the dispatch centers of the applicable grid companies pursuant to a dispatch agreement with us and pursuant to governmental dispatch regulations. In each of the markets in which we will operate, we will compete against other power plants for power sales, and dispatch is allocated based on actual demand from the grid. No assurance can be given that the dispatch centers will dispatch the full amount of the planned generation of our power plants. A reduction by the dispatch centers in the amount of electric power dispatched relative to our hydropower plants' planned generation could have a material adverse effect on our power generation and thus reduce our revenues.

Compliance with environmental regulations can be costly, and we may become subject to further environmental compliance requirements in connection with our operations, which could materially and adversely affect our results of operations and financial condition.

We are required to comply with Central American national and local regulations regarding environmental protection for the construction and operation of our hydropower plants. We have applied for all the environmental permits that are necessary under current Central American laws and regulations to conduct our business, but have not obtained some of the environmental permits from the relevant governmental authorities yet. Furthermore, to the extent that any plant we acquire in the future may have been in compliance with Central America environmental protection laws and regulations at the time they were constructed, we cannot assure you that the Central American government will not require retroactive application of current laws and regulations to such old plants. Compliance with environmental regulations can be very expensive, and non-compliance with these regulations may result in adverse publicity, potentially significant monetary damages and fines and suspension of our business operations. In addition, if more stringent regulations are adopted in the future, the costs of compliance with these new regulations could be substantial. If we fail to comply with any future environmental regulations, we may be required to pay substantial fines, suspend

production or even cease operations. We do not carry any insurance for damages resulting from failure to comply with environmental regulations.

-16-

In addition, Central America currently has no minimum flow requirements such as those that have been implemented by other countries that employ hydropower. The purpose of minimum flow requirements is to ensure that there is enough water upstream and downstream for other users, and for navigation, fish and other wildlife. Central America may implement minimum flow requirements in the future, and to the extent we do not have sufficient water supply due to such minimum flow requirements, we may have to reduce our power generation or cease operation of the affected plants, as a result of which our results of operations and financial condition would be materially and adversely affected.

Our business and business prospects rely in part on policy support from the Central American government, and our financial condition and results of operations may be materially and adversely affected if we lose such support.

National, provincial and local governments in Central America support the expansion of hydropower, which eases the approval process for facility acquisition, construction and financing. Under the Central America Renewable Energy Law, Catalogue for the Guidance of Foreign Investment Industries, the Eleventh Five-year Plan of the Development of Renewable Energy Resources and other relevant laws, expansion of both large- and small-scale hydropower production is one of the priorities for the development of the nation's power supply, and foreign investment in the sector is encouraged. We expect that our plant in Chiligatoro will enjoy several types of government support, including provision of bank loans, sometimes at lower interest rates than those borne by other private companies, policy support for local grids to purchase all the power we generate and lower levels of VAT levied on small hydropower production in some provinces where we have operations. If for any reason, such as development of new energy production technologies or migration to other renewable energy sources, Central America removes such policy support, our financial condition and results of operations may be materially and adversely affected.

Competition in the Central American power industry may increase, and our results of operations and growth prospects may be materially and adversely affected if we are unable to compete effectively.

We will compete in the Central American domestic market with other Central America power generation companies. These power companies and a number of other power producers have substantially greater financial, infrastructure or other resources than we do. We may also face competition from new entrants to the hydropower industry having business objectives similar to ours, including venture capital and private equity funds, leveraged buyout funds, and other operating businesses that may offer more advanced technological capabilities or that have greater financial resources. The ability of our competitors to access resources that we cannot access may prevent us from acquiring additional hydropower projects in strategic locations or from increasing our generating capacity. There is also increasing competition among operating power plants for increases in dispatched output, higher on-grid tariffs and land use rights. If we are unable to compete successfully, our growth opportunities to increase generating capacity may be limited and our revenue and profitability may be adversely affected. In recent years, the ongoing reform of the Central American power industry has included experimental programs to set on-grid tariffs through competitive bidding among thermal power plants. The tariffs determined by competitive bidding may be lower than the pre-approved tariffs for planned output. In the future, competitive bidding may extend to hydroelectric power plants and further increase price competition among domestic power generation companies. We cannot assure you that increased competition in the future will not have a material adverse effect on our results of operations and growth prospects.

Our business depends on the competitiveness of hydroelectric power generation in relation to other forms of electric power generation. Fewer hydropower plants may be built and less electricity from hydropower sources may be sold if fossil fuel prices decline significantly or if other renewable energy sources become less expensive than hydropower, either of which could have a material adverse effect on our results of operations, financial condition and growth prospects.

The demand for power plants that produce electricity from renewable energy sources such as water depends in part on the cost of generation from other sources of energy. The terms under which supplies of petroleum, coal, natural gas and other fossil fuels, as well as uranium, can be obtained are key factors in determining the economic interest of using these energy sources rather than renewable energy sources. The principal energy sources in competition with renewable energy sources are petroleum, coal, natural gas and nuclear energy. The record price levels for fossil fuels, in particular, petroleum and natural gas, enhanced the price competitiveness of electricity from renewable energy sources in 2008. A decline in the competitiveness of electricity from renewable energy sources in terms of cost of generation, technological progress in the exploitation of other energy sources, discovery of large new deposits of oil, gas or coal, or the recent decline in prices of those fuels from historically high levels, could weaken demand for electricity generated from renewable energy sources.

In the renewable energy sector, competition primarily exists with regard to factors such as bidding for available sites, performance of sites in generation, quality of technologies used, price of power produced and scope and quality of services provided, including operation and maintenance services. A decline in the competitiveness of electricity generated from hydroelectric sources in terms of such factors could weaken demand for hydroelectric power. Should hydropower production become uncompetitive with other forms of renewable energy production, or if fossil fuel production becomes more cost competitive, the construction of hydropower plants may slow, thus reducing our pool of potential acquisition targets and limiting our ability to grow our operations.

Planning, construction, acquisition and operation of our hydropower plants require us to obtain and maintain a significant number of permits and approvals from Central American government agencies, some of which we have not obtained or were not transferred to us upon project acquisition. Failure to obtain these permits and approvals could result in significant fines and our loss of the right to develop or operate those assets, which would materially and adversely affect our future growth plans and results of operations.

The planning, construction, acquisition and operation of small hydropower plants in Central America requires permits and approvals to be obtained and maintained under different regulatory schemes administered by a wide range of Central American government agencies. See "Regulation." The development rights we have obtained or may obtain are, in most cases, for projects that have not yet received planning and other permits. We believe we have applied for the grant, of all permits and approvals required to develop and operate our hydropower plants. However, our applications with respect to one or more projects may be rejected and we may be fined for failure to timely obtain permits and approvals for any of those projects. Failure to obtain missing permits and approvals may in certain cases result in significant fines or the government authorities requiring us to cease operation of our hydropower plants, or unwind the acquisition of the project, any of which would materially and adversely affect our future growth plans and results of operations. Failure to obtain permits and approvals for our development projects may result in our inability to complete and operate the project, or our being subject to penalties and fines upon completion of the project, either of which could materially and adversely affect our future growth and results of operations.

Our operations in Central America are extensively regulated by the Central American government and our costs associated with compliance with such regulations are substantial. Our results of operations and future growth prospects may be materially and adversely affected by future changes in government regulations and policies.

All of our power plants in Central America will be subject to extensive regulation by the Central American governmental authorities, including central governmental authorities such as the Ministry of Commerce, the State Administration for Industry and Commerce, the National Development and Reform Commission, the State Electricity Regulatory Commission, the State Administration of Taxation, the Ministry of Environmental Protection, the Ministry of Communications and Transportation, the Ministry of Water Resources, the Ministry of Land and Resources and the Ministry of Housing and Urban-Rural Development, as well as their provincial and local counterparts. Government regulations will address virtually all aspects of our operations, including, among others, the following:

- planning and construction of our plant in Chiligatoro and new power plants;
- the granting of power generation, dispatch and supply permits;
- the amount and timing of power generation;
- the setting of on-grid tariffs paid to power producers and power tariffs paid by consumers of electricity;
- power grid control and power dispatch, including the setting of preferential policies for the dispatch of renewable energy generated power;
- allocation of water resources and control of water flows;
- environmental protection and safety standards;
- acquisitions by foreign investors; and
- taxes, in particular Enterprise Income Tax and Value Added Tax.

Our costs of compliance with, and reliance on, this regulatory system will be significant to our business. An increase in the cost of compliance could increase our operating costs and expenses and materially and adversely affect our results of operations. Moreover, policy movements against renewable energy power producers could limit our opportunities for growth and materially and adversely affect our revenues.

We have not obtained power generation permits for certain of our existing hydroelectric power project, which could result in the forfeiture of income and the imposition of fines.

A new permit system was established in 2005, which requires all existing and new power generating, dispatching and supplying companies to obtain permits from the State Electricity Regulatory Commission. The State Electricity Regulatory Commission has been in the process of implementing the new permit system. By the end of 2008, the State Electricity Regulatory Commission had issued 6,170 power generating permits. We have submitted applications for power generation permits for our plant being constructed, but have not yet received the permits. The granting of a power generation permit for a new power generation project is a time-consuming and complicated process. A failure to obtain a power generation permit may have a material adverse effect on our business operations, including the forfeiture of income and the imposition of fines.

We have not obtained formal title certificates to the property we occupy, which may subject us to lawsuits or other actions being taken against us and may result in our loss of the right to operate on these properties and increased

operating expenses.

-19-

We have not obtained formal title certificates in respect of the land that we use at the Chiligatoro HydroElectric plants. We are in the process of completing the legal procedures for obtaining the relevant title certificates for the parcels of land and buildings involved and registering them in the name of our operating companies. However, we may not be able to obtain all of the formal title certificates. Our rights as owner or occupier of these properties and buildings may be adversely affected as a result of the absence of formal title certificates and we may be subject to lawsuits or other actions taken against us and may lose the right to continue to operate on these properties.

Risks Relating to Doing Business in Central America

Adverse changes in Central American economic and political policies could have a material adverse effect on the overall economic growth of Central America, which could reduce the demand for electricity and materially and adversely affect our business.

Our operating businesses will be based in Central America and all of our power sales are expected to be made in Central America. As such, our business, financial condition, results of operations and prospects will be affected significantly by economic, political and legal developments in Central America. Central America economy differs from the economies of most developed countries in many aspects, including:

- the level of government involvement;
- the level of development;
- the growth rate;
- the level and control of capital investment;
- the control of foreign exchange; and
- the allocation of resources.

While the Central American economy has grown significantly in the past two decades, the growth has been uneven geographically, among various sectors of the economy and during different periods. We cannot assure you that the Central American economy will continue to grow or to do so at the pace that has prevailed in recent years, or that if there is growth, such growth will be steady and uniform. In addition, if there is a slowdown, such slowdown could have a negative effect on our business. It is uncertain whether the various macroeconomic measures, monetary policies and economic stimulus packages adopted by the Central American government will be effective in restoring or sustaining the fast growth rate of the Central American economy. In addition, such measures, even if they benefit the overall Central American economy in the long term, may have a negative effect on us. For example, our financial condition and results of operations may be materially and adversely affected by government control over capital investments.

Although the Central American economy has been transitioning from a planned economy to a more market-oriented economy, a substantial portion of the productive assets in Central America is still owned by the Central American government. The continued control of these assets and other aspects of the national economy by Central America government could materially and adversely affect our business. The Central American government also exercises significant control over Central American economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Any adverse change in the economic conditions or government policies in Central America could have a material adverse effect on the overall economic growth and the level of investments and expenditures in Central America, which in turn could lead to a reduction in demand for electricity and consequently have a material adverse effect on our businesses.

Risks Relating to our Business

Failure to properly manage growth could adversely affect our business.