



COLORADO WATER CONSERVATION BOARD

WATER PROJECT LOAN APPLICATION

October, 2011

FEASIBILITY STUDY APPROVAL
Pursuant to Colorado Revised Statutes 37-60-121 & 122, and
in accordance with policies adopted by the Board, the
CWCB staff has determined this Feasibility Study meets all
applicable requirements for approval.

R. Mauro
Signed _____
Date 11-16-11

COLORADO WATER CONSERVATION BOARD

WATER PROJECT LOAN APPLICATION

Instructions: This application should be typed or printed neatly with black ink. Attach additional sheets as necessary to fully answer any question or to provide additional information that would be helpful in the evaluation of this application. When finished, please sign and return this application to:

THE COLORADO WATER CONSERVATION BOARD
Finance Section
1580 Logan St., Suite 600
Denver, CO 80203
Attn: Kirk Russell, P.E. or Anna Mauss, P.E.
Phone (303) 866-3441 x3232 Fax (303) 894-2578
Email kirk.russell@state.co.us or anna.mauss@state.co.us

Part A. - Description of the Applicant (Generally, the applicant is also the prospective owner and sponsor of the proposed project)

1. Name of applicant Two Rivers Water Company

Mailing Address 2000 S Colorado Blvd, Annex Ste 420, Denver, CO 80222

Business Phone (303) 222-1032 Fax (303) 845-9400

Federal ID Number 13-4228144 email wharding@2riverswater.com

2. Person to contact regarding this application:

Name Wayne Harding

Position/Title: CFO

Address Same as above

Business Phone (303) 222-1032 Cell (303) 290-0123

Email wharding@2riverswater.com

3. Type of organization (Ditch Co., Irrigation District, Municipality, etc.): private enterprise that is publicly traded under the symbol TURV on the OTC QB exchange.

Date of Annual Meeting: November 7, 2011

Is the organization incorporated in the State of Colorado? YES X NO _____ (If YES, please include a copy of the articles of incorporation, and the bylaws)

CWCB Water Project Loan Application

Refer to the following Exhibits:

- 04.1 Certificate of good standing.pdf
- 04.2 Articles of Incorporation.pdf
- 04.3 Bylaws.pdf

4. Please provide a brief description of the owner's existing water supply facilities and describe any existing operational or maintenance problems. Attach a map of the service area
-
-

For existing facilities indicate:

Number of shareholders approx. 1,100 or Number of customers served _____

Current Assessment per share \$NA Number of shares 22,964,114

Number of acres irrigated 3,000 Water Right: 50 CFS.

Average water diverted per year: 15,000 acre-feet.

Part B. - Description of the Project

1. Name of the Project Two Rivers Water System Rehabilitation.

2. Purpose of this loan application. Check one.

_____ New project
X Rehabilitation or replacement of existing facility
_____ Enlargement of existing facility
_____ Emergency Repair
_____ Other (describe) _____

3. If the project is for rehabilitation of an existing reservoir, is the reservoir currently under a storage restriction order from the State Engineer? YES * NO X (* Cucharas Dam Phase I, and Orlando Reservoir outlet works only)

4. General location of the project. (Please include county, and approximate distance and direction from nearest town, as well as legal description, if known.)

See Attached – Exhibit 01.1 Two Rivers Feasibility Study CWCB and Exhibit 01.2 Overview Map.pdf

5. Please provide a brief narrative description of the proposed project including purpose, need, facilities, type of water uses to be served and service area. Attach separate sheet, if needed.

See Attached – Exhibit 01.1 Two Rivers Feasibility Study CWCB

CWCB Water Project Loan Application

6. Will the acquisition of additional water rights be necessary? YES NO X

If YES, please explain. _____

7. Please list the names, addresses and phone numbers of the Applicants' engineer(s) and attorney(s).

NAME

ADDRESS and PHONE

Applegate Group

1499 West 120th Ave., Ste 200, Denver CO 80234;

phone: 303-452-6611

Krassa & Miller, LLC

2344 Spruce Street, #A, Boulder CO 80302,

phone: 303-442-2156

8. List any feasibility studies or other investigations that have been completed or are now in progress for the proposed project. If so, submit one copy of the study with this application

See Attached – Exhibit 01.1 Two Rivers Feasibility Study CWCB

9. Estimated cost of the project. Please include estimated engineering costs, and estimated construction costs, if known.

Estimated Engineering Costs (1): \$30,000

Estimated Construction Costs: \$1,273,500

Estimated Other Costs: \$ 0 (land, water rights purchase, etc.)

Estimated Total Costs: \$1,303,500

- (1) Engineering costs are just for the initial estimates and CWCB application. Other engineering costs is included in Construction Costs. Refer to Appendix C in Exhibit 01.1 Two Rivers Feasibility Study CWCB for details.

10. Loan amount and terms you are requesting.

Requested Loan Amount: \$1,173,150

Term (length) of loan: 20 years

Interest Rate: 2.75 %

Part C. - Project Sponsor Financial Information

Because the CWCB's Fund is a revolving fund, it is important that the project sponsor have the financial capacity to repay any loans made by the CWCB. The following information is needed to assist the CWCB in a preliminary assessment of the applicant's financial capacity. The project sponsor will submit the three most recent annual financial statements.

1. List any existing long-term liability (multi-year) or indebtedness that exceeds one thousand dollars. For example, bank loans, government agency loans, bond issues, accounts payable, etc.

CWCB Water Project Loan Application

Include names and addresses of lenders, amounts, due dates and maturity dates.

Our last three years of audited financials are attached to this application under Exhibits:

- 03.2 Two Rivers Dec 31 2010 audited financials.pdf
- 03.3 Two Rivers Dec 31 2009 2008 audited financials.pdf

| <u>Lender Name & Address</u> | <u>Remaining Amount</u> | <u>Annual Payment</u> | <u>Maturity Date</u> |
|----------------------------------|-----------------------------|---------------------------|--------------------------|
|----------------------------------|-----------------------------|---------------------------|--------------------------|

Please refer to Exhibit 03.6 Long term liability and indebtedness through 9-30-11.xlsx

For further analysis, we have included our financial proformas for our farming operations; see Exhibit 03.4 CWCB Alfalfa Proforma.xlsx.

2. Are any of the above liabilities now in default, or been in default at any time in the past?
YES _____ NO X. If YES, please give detailed explanation.

3. Please provide a brief narrative description of sources of funding, in addition to the CWCB, which have been explored for this project (Examples would be Banks, USDA Rural Development, NRCS, Colorado Water Resources and Power Development Authority, Colorado Division of Local Government, etc.).

This application is an updated and revised version of a previously approved loan by CWCB. Other funding sources are not appropriate for the restoration of these agricultural assets.

4. What collateral will you be offering for this loan? Possibilities include a pledge of revenues, the project itself, real estate, water rights.

The collateral for the loan will include a first priority lien on the water storage rights of Orlando Reservoir (3,110 af absolute), a first priority lien on farm land in Pueblo County (1,250 +/- acres) and a priority on revenues from a rolling three-year contract to purchase organic alfalfa at \$225/ton. The contract, with a national dairy operation, renews annually for a three year term based on mutual agreement of the Parties.

The above statements are true, to the best of my knowledge:

Signature of Applicant _____

Printed Name: Wayne Harding

Title: CFO

Date: September 30, 2011

CERTIFICATION

I, Charles Michael Applegate, registered professional engineer in the State of Colorado, certify that this report on technical feasibility for rehabilitation of the Two Rivers Irrigation Water Distribution System Rehabilitation was prepared by me or by those who were under my direct supervision for the Two Rivers Water Company.



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PURPOSE

The purpose of this application is to begin the process of restoring historic water resource assets, particularly storage vessels constructed in the 19th and early 20th Centuries, to a condition capable of supporting irrigated agriculture in the Arkansas River basin. This application reflects the refinement of a business model over the past year, since the November, 2010 Colorado Water Conservation Board meeting, when the Board approved a \$9.9 million for Two Rivers Water Company's Huerfano-Cucharas Irrigation Company, for restoration of Cucharas Valley Reservoir.

In the past year, Two Rivers Water Company ("Two Rivers" or "the Company") has successfully acquired the Orlando No. 2 Reservoir; an off-channel storage vessel constructed in 1905, and commenced an irrigated alfalfa farming operation in Huerfano County. Cucharas Reservoir, the subject of the previously approved loan, was once known as Orlando No. 5. The reservoir was constructed along with Bradford Lake (Orlando No. 1) and Orlando No. 2, as an integrated system to provide stored water for irrigation in the Huerfano River basin. With the reassembly of the system through the purchase of Orlando # 2 Reservoir, the goal of this loan application is to re-allocate monies previously approved for restoration of Cucharas to begin the rehabilitation of this integrated storage and irrigation complex. historic average annual storage of water in the Cucharas Reservoir is 2,564 af. The historic average annual storage in the Orlando Reservoir is more than 2,400 af. It will cost \$495,000 to repair the Orlando dam. It will cost \$20,000,000+ to repair the Cucharas dam. Two Rivers has determined it's only prudent at this stage in the development of its irrigated farmland to repair the Orlando dam at a cost of 2.5% of the cost to repair the Cucharas dam for the same or even greater amount of historic average annual storage.

The loan approved in November, 2010, contemplated two phases for restoration of Cucharas Reservoir. Phase I brought 10,000 af of existing storage capacity into compliance with the State Engineers Office Dam Safety Office. This loan application retains that Phase I component, about \$200,000, which is in process for construction in the 4th quarter of 2011. Over the past year, Two Rivers has worked with GEI Consultants and The Applegate Group to meet the requirements of the SEO for a hydrologic study of the Huerfano River basin. These activities and some exploratory construction have been funded by Two Rivers. Two Rivers has spent \$699,000 to date in satisfying the requirements of rehabilitating the Cucharas dam.

This request seeks to allocate about ten percent (10%) of the previously approved funding for restoration of the Orlando Reservoir outlet works and irrigation headgates. All of these rehabilitation activities will be in support of agricultural production.

SPONSOR

Two Rivers acquires and develops high yield irrigated farmland and the associated water rights in the Huerfano and Cucharas two river basin in Southern Colorado. Two Rivers is a for-profit enterprise that is publicly traded on the OTC QB exchange under the symbol TURV. Since we are a public company, our financial information and other disclosures are filed with the United States Securities Exchange Commission (www.sec.gov).

Two Rivers is focusing on organic crop production from high yield irrigated farmland in Huerfano County and the Front Range of Colorado. The Company's crop production consists of organic premium to supreme alfalfa hay and exchange traded grains. Two Rivers recently executed a supply contract to furnish organic hay to a national dairy operation. The agreement provides a fixed price **(\$225/ton at the field)** for three years with annual extensions to maintain a three (3) year program rolling into the future, based on mutual agreement by the Parties. The Company also expects to produce organic vegetable and fruit crops when supply contracts are secured.

The Company owns a 91% interest in the Huerfano Cucharas Irrigation Company which was purchased in 2010. The Company also purchased the Orlando Reservoir and Butte Valley water rights in February 2011. The Company currently has the capacity to store 15,000 acre-feet of water; when the reservoirs are fully restored and conditional rights are made absolute the water rights are in excess of 70,000 acre-feet of water annually. Two Rivers' surface water rights total more than 50 cubic feet per second of stream flow, which historically yields 15,000 acre-feet of water annually.

WATER DEMANDS AND WATER RIGHTS

The water rights currently held by the Two Rivers Water Company are parts of two regional systems that at one time worked as an integrated water project. The original CWCB loan that was granted for Cucharas Dam rehabilitation work was based on the following water rights held by Two Rivers:

Water rights held by the Huerfano – Cucharas Irrigation Company are tabulated as follows:

Huerfano-Cucharas Irrigation Company Water Rights

| Name | Adjudication Date | Priority Date | Amount |
|------------------------------|-------------------|------------------------|---------------|
| Huerfano Valley Ditch | 02/23/1898 | 02/02/1888 | 42 cfs |
| Huerfano Valley Reservoir | 02/23/1898 | 02/02/1888 | 2,017 AF |
| Huerfano Valley Ditch | 10/03/1921 | 02/23/1898 | 18 cfs |
| Cucharas Reservoir | 10/03/1921 | 03/14/1906 Absolute | 31,958 AF |
| Cucharas Reservoir | | | |
| Aka: Orlando Reservoir No. 5 | 10/03/1921 | 03/14/1906 Conditional | 34,404.125 AF |

Two Rivers has been active since the approval of the previous loan application to secure additional water rights in the Orlando – Bradford system. These additional water rights that will be used in the system improvements requested for this loan application are as follows:

Orlando - Bradford Water Rights

| Name | Adjudication Date | Priority Date | Amount |
|------------------------------|-------------------|---------------------|----------|
| Orlando Canal No. 3 | 10/23/1921 | 10/19/1906 | 172 cfs |
| Butte Valley Ditch | 06/12/1889 | 05/15/1862 | 18 cfs |
| Bradford Reservoir | 10/03/1921 | 12/15/1905 Absolute | 6,000 AF |
| Aka: Orlando Reservoir No. 1 | | | |
| Orlando No. 2 Reservoir | 10/03/1921 | 12/14/1905 Absolute | 3,110 AF |
| Robert Rice Ditch | 03/01/1867 | 05/15/1862 | 3 cfs |

The water demands for the project are based on bringing historically irrigated land back into production. Two Rivers owns the lands that are being put back into production. Two Rivers is presently re-grading and improving several farms that were historically irrigated under these systems. Two Rivers has signed contracts for growing organic alfalfa that will basically take everything that can be grown on 4,000 acres, this acreage is well within what was contemplated in the early 1900's in the decrees for the water rights.

The acreage will be brought into production in a sequential phased approach as portions of the system are rehabilitated.

To ensure an adequate physical water supply, Two Rivers is also working to secure temporary supplies for supplemental use. Two Rivers has an agreement with Pueblo Board of Water Works to take up to 500 acre feet of rental water when it can be exchanged into the system.

ANALYSIS OF ALTERNATIVES

A. CUCHARAS RESERVOIR PHASE I

The Cucharas #5 Dam is located on the Cucharas River in Huerfano County. The Cucharas Reservoir has undergone previous studies for rebuilding an RCC dam just downstream of the current dam location. This path has been defined as Phase II for the Cucharas Reservoir project. GEI Consultants are currently addressing the Phase II design through coordination with the State Engineer's Office on the site hydrology and Inflow Design Flood determination, and are also performing an incremental damage analysis.

Phase I for the Cucharas project has been defined to address the interim dam prior to the reconstruction of the RCC dam downstream. Should Phase II be delayed, the State would like the dam to be in compliance with current regulations and be able to remove the current fill restriction. A preliminary design to lower the spillway elevation was underway and Phase I began with site exploration to remove approximately 150 feet of the current spillway weir to investigate the composition of the weir and determine if a full removal was feasible. Currently the existing dam is being analyzed for potential spillway modifications that could remove this fill restriction. Additionally, a Hazard Classification Study is being performed on the existing rock fill dam to verify the inflow design flood necessary for the spillway to pass when modified.

Current alternatives for Cucharas Reservoir include finalizing Phase I to modify the current spillway to bring the existing dam into compliance with current State rules and regulations until a time when rebuilding the dam is feasible and economical. The design for the new replacement dam is also being pursued to ensure Phase II of the project will be planned for appropriately.

B. ORLANDO RESERVOIR PHASE I - OUTLET WORKS REHABILITATION

The Orlando Reservoir No. 2 is located in northern Huerfano County approximately 11 miles north of Walsenburg, Colorado. The State Engineer's Office Dam ID is 160118 and is located in Water Division 2 and Water District 79.

The Orlando Reservoir is currently under a fill restriction until the dam outlet works is rehabilitated. The outlet pipe is an approximately 100-year old corrugated metal pipe which has collapsed in several locations. The dam has been breached at the outlet works location in anticipation of construction of a new outlet works. Two Rivers wishes to have the reservoir outlet rehabilitated and the reservoir ready to store water by November 15, 2011 for the winter storage season. This includes a geotechnical investigation of the dam and nearby soil materials to test for permeability and strength properties for use in rebuilding the dam.

1. No Action

The owner cannot store water in the Orlando Reservoir No 2 at this time. If no action were taken to repair the outlet works the dam would be required to be breached and the embankment removed. The owner would not be able to store the 3,110 acre-feet of

decreed water storage right. The owner would lose the revenue associated with the water and irrigable land adjacent to the reservoir would not be utilized, representing a loss of revenue and land productivity.

2. Tower Alternative

The tower alternative is to install a manhole on the upstream face of the dam. The inlet pipe to the manhole and a headwall/trash rack system would be installed at the base of the reservoir, and the outlet pipe from the manhole would be placed on undisturbed soil at the same elevation as the current outlet pipe. The pipe would be reinforced concrete encased PVC or similar pipe and would be attached to a pump on the downstream end for the Orlando Irrigation Distribution System, discussed below. This alternative would allow for the possible future raising of the dam crest elevation by adding rings to the manhole to raise it to a level accessible from the dam crest.

3. Bridge Alternative

The bridge alternative is to install a drop inlet similar to the existing structure. However the gate would be vertical and would be accessed by a catwalk from the dam crest. In the event that the dam crest elevation is raised to reclaim the decreed storage volume the gate stem would need to be extended and a new catwalk installed to accommodate the additional height and length required to reach the gate from the dam crest. As with the tower alternative the pipe would be a reinforced concrete encased PVC or similar pipe placed on undisturbed soil at the same elevation as the current outlet pipe. The outlet pipe would be attached to a pump station on the downstream end for the Orlando Irrigation Distribution System, discussed below.

C. ORLANDO CANAL NO. 3 HEAD GATE REHABILITATION

The Orlando Ditch head gate has historically operated using a man-made temporary sand dam to divert decreed flows from Huerfano River into the Orlando Ditch. This method has consistently led to costly maintenance and repairs as high flows are capable of breaching the dam. This head gate has the potential to divert 3,000 or more ac-ft in a typical irrigation season.

1. No Action

Should no modifications be made to the existing Orlando Ditch head gate, there will be possible method in which to divert flows from the Huerfano River into the inlet ditch. Accordingly, Orlando Reservoir will not be provided with any inflows.

2. Temporary Sand Dam

The existing diversion dam consists of a temporary sand dam that is constructed as necessary when peak flows in the Huerfano River have enough force to wash the dam material downstream. Although the initial construction cost of this alternative is very low, the potential to have to rebuild and maintain the sand dam is very large, as has been demonstrated throughout the history of this system. In the event of substantial early season runoff, there is potential for the sand dam to be breached early in the irrigation season, leading to a significant loss of diversion flows. Breaching of the sand dam also presents a significant sedimentation issue to downstream reaches of the Huerfano River, as has been demonstrated on a nearly annual basis. If the dam were to require maintenance during the irrigation season when river flows are at their peak, significant construction cost and obstructions may be incurred during rehabilitation efforts.

3. Sheet Pile Diversion Dam

A capped sheet pile diversion dam could be developed to allow for permanent flow control and diversion on the Huerfano River. The subgrade materials in the region would allow for the installation the sheet pile to be unimpeded by cobble and rock encountered in other parts of the state. Inclusion of a smooth and uniform cap on top of the corrugated sheet pile material would allow for a uniform flow profile across the dam, beneficial to both diversion and sedimentation considerations. Sand gates would be evaluated in order to provide sediment control to the diversion dam. Although significantly more expensive to initially construct, this alternative would remove the substantial maintenance requirements of a temporary dam.

4. Gates and SCADA

In an effort to modernize the entire Two Rivers irrigation system and increase efficiency while decreasing system losses, the use of automated gates and flow measurement could be developed at this location. Automated gates may include Rubicon FlumeGates and Obermeyer gates, both of which are overshot gates that combine excellent water surface elevation control with the ability to pass surface debris. In addition to a permanent diversion structure on the Huerfano River, communication with the downstream flow measurement flume in the Orlando Ditch channel could be used to monitor both downstream and diversion flow rates in real time to minimize the potential losses due to diurnal fluctuations within the river, in addition to other factors.

D. HCIC HEADGATE STRUCTURE IMPROVEMENTS

The HCIC headgate is located on the Huerfano River, accessed through a short canyon section of the River. The headgate consists of a river diversion, approximately 4-ft high constructed of a concrete wall reinforced with rip rap on the downstream slope. The water is diverted through a set of wooden stop logs/trash racks to four metal slide gates leading to the HCIC ditch. Water can be returned immediately back to the river through a set of sand trap slide gates just downstream.

1. No Action

Continuous operation of the existing structure as currently operated is feasible, although site access is a concern during adverse weather conditions. One section of the downstream ditch nearby needs re-graded for more efficient hydraulic operation. As is, the gates can be opened and the whole river diverted into the ditch with a river return channel directly downstream. A flow measurement weir exists further downstream, near the river return. Currently the river diversion gates and gates at the river return channel are hydraulically operated and Two Rivers personnel must take time to access the site and operate the valves. It can typically take 1.5 hours to get the proper flow adjusted and conveyed into the ditch system.

2. Automate Head Gate Operations

Site access is slightly difficult and can be unsafe in adverse weather; as such automation of this diversion structure is considered here as an alternative. Remote SCADA operation and automated gates such as Rubicon have been considered. This alternative would include demolition of the existing hydraulic gates, not including the wooden debris shield or concrete headwall and rip rap spanning the river. A Rubicon gate would replace the existing slide gates and would measure the flow diverted from the river.

This flow measurement would be communicated to an actuator and sonic flowmeter such as an AgriFlow meter or similar device located at the turnout back to the river.

SELECTED ALTERNATIVES

The alternatives for each task of this project have been analyzed and further descriptions of the selected alternatives are included below. A summary Engineer's Opinion of Probable Cost for the full system has been included in Appendix C of this document as well as more detailed Cost Opinions for each task. Conceptual design exhibits are included in Appendix D of this document. A schedule has been developed for all tasks in the system. The Gantt chart is included in Appendix E.

A. CUCCHARAS RESERVOIR PHASE I

The current work being performed on Cucharas Dam is proposed to continue to address all State restrictions and concerns for the future dam and the existing, interim dam. Phase I addresses the spillway modifications to make the current dam compliant with State regulations. This will remove the current fill restriction on the dam allowing the reservoir to be utilized. Progress toward Phase II for the final dam design is still desired by the State and as such should remain in progress to best plan for the Two Rivers system wide rehabilitation. The costs to perform this work to date are included in the Opinion of Cost for the full system.

B. ORLANDO RESERVOIR PHASE I – OUTLET WORKS REHABILITATION

The tower alternative was selected for this phase of the project. This alternative involves installation of a manhole on the upstream face of the dam. The inlet pipe to the manhole and a headwall/trash rack system will be installed at the base of the reservoir, and the outlet pipe from the manhole will be placed on undisturbed soil at the same elevation as the current outlet pipe. The pipe will be reinforced concrete encased PVC or similar pipe and will be attached to a pump on the downstream end for the Orlando Irrigation Distribution System, discussed below. This alternative allows for Phase II work. If the dam crest is raised, the manhole can be modified by adding rings to raise it to a level accessible from the new dam crest.

A decision should be made prior to design regarding the future reservoir floor elevation in the pond. If dredging is anticipated for all or a portion of the 8-ft of sedimentation in the bottom of the reservoir, then the outlet structure should be placed at the correct elevation.

The no action alternative was not selected because the loss of water storage capacity is not compatible with the system-wide irrigation water distribution plan for the Two Waters system.

The bridge alternative was not selected because the cost of a catwalk would be incurred in both Phase I and Phase II in order to install a catwalk to the right height and length for access to the outlet gate, and would be less cost effective than simply adding rings to the manhole based on the future design height of the Orlando Reservoir No. 2 Dam.

C. ORLANDO CANAL NO. 3 HEAD GATE REHABILITATION

The preferred alternative is to construct a capped sheet pile diversion dam. The dam will be roughly 90-feet wide and significantly keyed into existing banks in order to prevent flanking of the dam during high flows. The sheet pile will have a steel capped trapezoidal section in the center of the channel for design flows which will act to direct flow towards the center of the channel and onto the constructed riprap erosion protection. It is currently anticipated that 12-inch riprap will be sufficient based on flow data obtained from the Division of Water Resources. Redirection of flows towards the center of the channel and placement of the dam in a straight reach will minimize the potential for bank erosion downstream. Additionally, Sand gates will be evaluated in conjunction with the sheet pile dam in order to account for sediment considerations newly imposed due to the implementation of a permanent dam.

Although significantly more expensive to initially construct, this alternative would remove the substantial maintenance requirements of a temporary dam. Accordingly, the temporary sand dam alternative was not selected due to the high cost of maintenance and increase in sediment load to the Huerfano River ecosystem.

The no action alternative was not considered as this option did not meet the purpose and needs of the Orlando Canal No. 3 and Orlando Reservoir system.

D. HCIC HEADGATE STRUCTURE IMPROVEMENTS

The selected alternate includes removal of the hydraulically operated gates and installation of remotely operated gates. An approximate 5.5-foot wide Rubicon FlumeGate gate is proposed at the river diversion to communicate with the two proposed downstream Rubicon SlipGates at the river return culvert in order to convey the desired amount of water. The existing sluice gates at the river return are proposed to be replaced with the aforementioned SlipGates due to the high cost of retrofitting the existing gates with actuators and SCADA communications built in control. The other advantage to using the SlipGates at this location is their seamless integration into the Rubicon SCADA system to communicate with the FlumeGate at the diversion as well as their ability to release the desired flow rate back to the river. This flow measurement capability eliminates the requirement to install and implement additional flow measurement devices, such as ultrasonic flow meters, to measure return flows to the river.

The no action alternative was not chosen as it is not an efficient use of the system or personnel to access the site and adjust the valves when the time required to set the flow could be greatly reduced. The implementation of an automated system will also significantly increase the efficiency of flows through this reach.

IMPACTS

Restoration of existing water storage facilities is one of the most cost-effective strategies to meet Colorado's future water needs. This project begins the reclamation of reservoirs constructed in the late 19th and early 20th century in support of agricultural productivity.

The project will have beneficial social impact as the projects will result in increased employment in the area. Physical impacts include the changes to the dam structures and diversions. Construction of permanent diversion structures will have a positive environmental impact because the current temporary diversion dams must be restored in the river channel every year.

INSTITUTIONAL CONSIDERATIONS

A. PERMITS

Permitting for this project will include Dam Safety Permits from the State Engineer's Office. The modifications to in-stream diversion structures are considered maintenance and thus are exempt from US Army Corps of Engineer(USACE) permits, however letters will be sent to the USACE prior to commencement of work in the streams. If the diversion structures result in changes in the regulated floodplain on the Huerfano River then floodplain permitting will be required. At this time it is anticipated that the proposed changes will not negatively impact the floodplain. A FEMA Conditional Letter of Map Revision (CLOMR) and Letter of Map Revision (LOMR) application process would be required if there are any changes to the floodplain.

B. COURT ACTIONS

At this time, there are no pending water court or administrative actions associated with the water rights, except: 1) Two Rivers has a diligence case for the conditional water rights of Cucharas Reservoir (10CW019), and; 2) The Butte Valley headgate is coterminous with the Bradford Lake headgate. Two Rivers is protesting the listing of Bradford Lake on the 2010 abandonment list.

C. CONTRACTS

Two Rivers has a water lease and exchange agreement with the Pueblo Board of Water Works which provides augmentation water beginning in April, 2012. (Exhibit 05.1 PBWW Water Lease.pdf)

D. AGREEMENTS

None.

E. APPROVALS

Restoration of the reservoir outlet works will require SEO approval of the construction plans.

FINANCIAL PLAN

PREVIOUS CWCB LOAN

At the November 2010 CWCB Board meeting, Two Rivers was granted a total loan for \$9,990,000. This loan was approved in two phases. Phase I, with an Engineers' Estimate of Construction Cost of \$240,000, was allocated to bringing the Cucharas Reservoir into safety compliance with the Dam Safety Division of the Colorado State Engineers office. The total amount of this loan was \$218,160, less the loan fee of \$2,160, for a net of \$216,000.

The remaining balance of \$9,771,840 was reserved for the rehabilitation of the Cucharas Reservoir.

NEW CWCB LOAN APPLICATION

Two Rivers requests the following, based on an estimated Project Cost of \$1,303,500:

- Retention of Phase I portion of the prior loan for a total of \$218,160. To date, Two Rivers has expended approximately \$125,000 of its own funds. Cancellation of Phase II of the prior loan.
- A new loan request for a total of ~~\$1,173,150~~ ~~\$1,303,500~~ for the rehabilitation of the Orlando Reservoir #2 outlet works, Orlando headgate and Huerfano-Cucharas headgate. HCIC headgate repair. This sum includes the Phase I loan amount of \$216,000 from the prior loan.

\$1,303,500 TOTAL
90%
\$1,173,150 LOAN
AMOUNT

Two Rivers Farms, LLC
 Alfalfa Hay Mix
 return to index

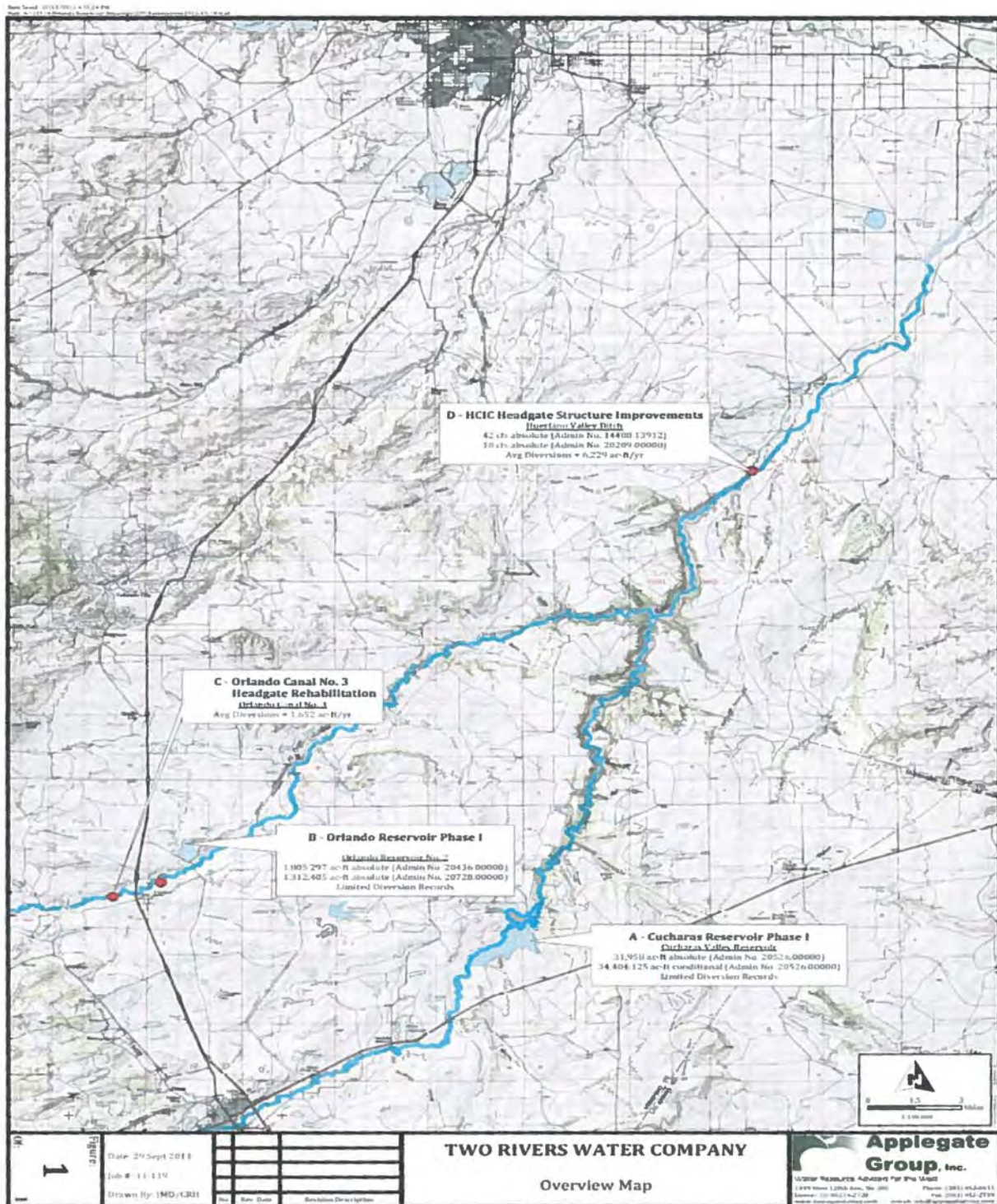
| Inflation Rate | | 5.00% | Operations | | | |
|--|---------------|-------|--------------|---------------|---------------|---------------|
| | | | 2012 | 2013 | 2014 | 2015 |
| Operations | | | | | | |
| Revenue | | | | | | |
| Tons produced | | | | | | |
| F-1 Undercliffe | 500 | | 3,000 | 4,000 | 4,000 | 4,000 |
| F-2 Huerfano County, Spring 2012 | 1,500 | | 9,000 | 12,000 | 12,000 | 12,000 |
| F-3 Pueblo County, Spring 2012 | 2,000 | | 12,000 | 12,000 | 16,000 | 16,000 |
| F-4 TBD, Spring 2013 | 5,000 | | - | 30,000 | 40,000 | 40,000 |
| F-5 TBD, Spring 2014 | 5,000 | | - | - | 30,000 | 40,000 |
| F-6 TBD, Spring 2015 | 5,000 | | - | - | - | 30,000 |
| Total tons produced | | | 24,000 | 58,000 | 102,000 | 142,000 |
| Acres planted | | | 4,000 | 9,000 | 14,000 | 19,000 |
| New acres planted | | | 4,000 | 5,000 | 5,000 | 5,000 |
| Avg Tons per acre | | | 4.5 | 5.0 | 5.5 | 6.0 |
| Total Tons | | | 18,000 | 45,000 | 77,000 | 114,000 |
| Price per Ton | | | \$ 225.00 | \$ 236.25 | \$ 248.06 | \$ 260.47 |
| Revenue | | | \$ 4,050,000 | \$ 10,631,250 | \$ 19,100,813 | \$ 29,693,081 |
| Revenue Per Acre | | | \$ 1,013 | \$ 1,181 | \$ 1,364 | \$ 1,563 |
| Operating Expenses | | | | | | |
| | Cost per Acre | | | | | |
| Materials & Services | \$ 166 | | 697,200 | 1,643,400 | 2,672,600 | 3,784,800 |
| Labor - President of Farms | | | 55,755 | 116,820 | 122,130 | 127,440 |
| Labor | \$ 159 | | 669,060 | 1,505,385 | 2,341,710 | 3,178,035 |
| Equipment | \$ 90 | | 360,800 | 811,800 | 1,262,800 | 1,713,800 |
| Tractors | \$ 12 | | 48,000 | 108,000 | 168,000 | 228,000 |
| Contingencies (5%) | \$ 20 | | 80,000 | 180,000 | 280,000 | 380,000 |
| Depreciation on farm prep and irrigation | | | 754,133 | 1,696,800 | 2,639,467 | 3,582,133 |
| Total Operating Expenses | | | 2,664,948 | 6,062,205 | 9,486,707 | 12,994,208 |
| Contribution Margin | | | 1,385,052 | 4,569,045 | 9,614,106 | 16,698,873 |
| Interest - Outside financing | 10.00% | | 625,000 | 3,125,000 | 5,000,000 | 5,000,000 |
| Interest - Conv Debt | 6.00% | | 109,980 | - | - | - |
| Debt Service - CWCB | 2.75% | | 38,528 | 77,033 | 77,033 | 77,033 |
| Revenue participation | 5.00% | | 202,500 | 531,563 | 955,041 | 1,484,654 |
| Total Debt Service | | | 976,008 | 3,733,595 | 6,032,074 | 6,561,687 |
| Net Farm Income before taxes | | | 409,044 | 835,450 | 3,582,032 | 10,137,186 |
| Key Metrics: | | | | | | |
| Operating Expense per Acre | | | \$ 666 | \$ 674 | \$ 678 | \$ 684 |
| EBITDA | | | \$ 2,139,185 | \$ 6,265,845 | \$ 12,253,573 | \$ 20,281,006 |
| EBITDA/acre | | | \$ 535 | \$ 696 | \$ 875 | \$ 1,067 |
| Cash Flow After Debt Service | | | \$ 1,163,177 | \$ 2,532,250 | \$ 6,221,499 | \$ 13,719,319 |
| CM per acre | | | \$ 346 | \$ 508 | \$ 687 | \$ 879 |

APPENDICES

- Appendix A Project Overview Map
- Appendix B Engineer's Opinion of Probable Cost
- Appendix C Conceptual Design Exhibits
- Appendix D Project Schedule

APPENDIX A - PROJECT OVERVIEW MAP

Please note that a larger version of this map is available as Exhibit 01.2 Overview Map.pdf



D - HCIC Headgate Structure Improvements

Huerfano Valley Ditch

42 cfs absolute (Admin No. 14408.13912)

18 cfs absolute (Admin No. 20209.00000)

Avg Diversions = 6,229 ac-ft/yr

**C - Orlando Canal No. 3
Headgate Rehabilitation**

Orlando Canal No. 3

Avg Diversions = 1,652 ac-ft/yr

B - Orlando Reservoir Phase I

Orlando Reservoir No. 2

1,805.297 ac-ft absolute (Admin No. 20436.00000)

1,312.405 ac-ft absolute (Admin No. 20728.00000)

Limited Diversion Records

A - Cucharas Reservoir Phase I

Cucharas Valley Reservoir

31,958 ac-ft absolute (Admin No. 20526.00000)

34,404.125 ac-ft conditional (Admin No. 20526.00000)

Limited Diversion Records

APPENDIX B – ENGINEER’S OPINION OF PROBABLY COST

Engineer's Opinion of Probable Construction Cost

**Applegate
Group, Inc.**

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200
Denver, CO 80234
Phone: (303) 452-8611
Fax: (303) 452-2756

TWO RIVERS WATER SYSTEM REHABILITATION

SUMMARY OF SYSTEM Water Division 2, Water Districts 14 & 79

| | |
|-----------|--------------------------|
| Job Name: | Two Rivers |
| Job No. : | 11-119 |
| By: | CEC |
| Date: | 9/30/2011 |
| Project: | CWCB Loan Application |
| Client: | Two Rivers Water Company |

| DESCRIPTION | NUMBER OF UNITS | UNIT TYPE | UNIT COST | ESTIMATED COST |
|---|--------------------|--------------|-------------|--------------------|
| Engineering Services | | | | |
| Feasibility Study for CWCB Loan App | | | \$20,000.00 | \$20,000 |
| CWCB Loan Repayment Procedures | 1 | LS | \$10,000.00 | \$10,000 |
| SUBTOTAL | | | | \$30,000 |
| <u>Water System Components - Phase A</u> | | | | |
| Cucharas Phase I | 1 | LS | \$240,000 | \$240,000 |
| Orlando Reservoir Phase I - Outlet Works Rehabilitation | 1 | LS | \$495,200 | \$495,200 |
| Orlando Ditch Headgate Rehabilitation | 1 | LS | \$173,400 | \$173,400 |
| SUBTOTAL | | | | \$908,600 |
| <u>Water System Components - Phase B</u> | | | | |
| HCIC Headgate Structure Improvements | 1 | LS | \$364,900 | \$364,900 |
| SUBTOTAL | | | | \$364,900 |
| TOTAL | | | | \$1,303,500 |

Engineer's Opinion of Probable Construction Cost

**Applegate
Group, Inc.**

1490 W. 120th Ave, Suite
200
Denver, CO 80234
Phone: (303) 452-6611
Fax: (303) 452-2750

TWO RIVERS IRRIGATION WATER DISTRIBUTION SYSTEM

REHABILITATION

ORLANDO RESERVOIR PHASE I - OUTLET WORKS REHABILITATION

Dam ID 180118, Water Division 2, Water District 78
Construction File No.: C-0

Job Name: Two Rivers
Job No.: 11-119
By: CH
Date: 9/30/2011
Project: CWCB Loan Application
Client: Two Rivers Water Company

| DESCRIPTION | NUMBER OF UNITS | UNIT TYPE | UNIT COST | ESTIMATED COST |
|--|--------------------|-----------------|--------------|-------------------|
| Engineering Services | | | | |
| Design Rehabilitation of Dam Outlet Works | 1 | LS | \$35,000.00 | \$35,000 |
| Rule 6 Submittal to SEO for Outlet Works Rehabilitation | 1 | LS | \$10,000.00 | \$10,000 |
| Geotechnical Investigation | 1 | LS | \$20,000.00 | \$20,000 |
| Rule 10 Submittal to SEO for Dam Modifications | 1 | LS | \$20,000.00 | \$20,000 |
| Design Survey | 1 | LS | \$3,000.00 | \$3,000 |
| SUBTOTAL | | | | \$88,000 |
| <u>Rehabilitate Existing Dam Outlet Works</u> | | | | |
| Breach Dam | | | | |
| Excavate and stockpile material | 5,000 | CY | \$4.00 | \$20,000 |
| Demolish and Remove Existing 36-in RCP | 170 | LF | \$10.00 | \$1,700 |
| Demolish and Remove Existing Sheetpile Headwall and Wingwall | 1 | LS | \$1,000.00 | \$1,000 |
| Demolish and Remove Existing Concrete Outlet Structure | 1 | LS | \$10,000.00 | \$10,000 |
| Outlet Structure | | | | |
| Concrete Headwall with Trashrack and Bulkhead | 1 | EA | \$10,000.00 | \$10,000 |
| 6-ft Diameter Manhole | 1 | EA | \$30,000.00 | \$30,000 |
| 30-in Gate | 1 | EA | \$25,000.00 | \$25,000 |
| 30-in PVC with Structural Concrete Encasement | 240 | LF | \$660.00 | \$158,400 |
| Vent Pipe | 30 | LF | \$20.00 | \$600 |
| 30-in Wye | 1 | EA | \$1,000.00 | \$1,000 |
| 30-in Valve | 1 | EA | \$5,000.00 | \$5,000 |
| Outfall Structure | 1 | EA | \$8,000.00 | \$8,000 |
| Instrumentation | | | | |
| 6-ft metal Parshall Flume | 1 | EA | \$20,000.00 | \$20,000 |
| Reservoir Staff Gage | 1 | LS | \$1,000.00 | \$1,000 |
| SUBTOTAL | | | | \$291,700 |
| | | Subtotal | | \$379,700 |
| MOBILIZATION (5%) | | | | \$14,600 |
| SURVEYING (STAKING) (2%) | | | | \$5,900 |
| CONTINGENCY (25%) | | | | \$95,000 |
| TOTAL | | | | \$495,200 |

Engineer's Opinion of Probable Construction Cost



**Applegate
Group, Inc.**

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TWO RIVERS IRRIGATION WATER DISTRIBUTION SYSTEM REHABILITATION

ORLANDO DITCH HEADGATE REHABILITATION
Structure ID Number: 563, Water Division 2, Water District 79

| | |
|-----------|--------------------------|
| Job Name: | Two Rivers |
| Job No.: | 11-119 |
| By: | CEC |
| Date: | 9/30/2011 |
| Project: | CWCB Loan Application |
| Client: | Two Rivers Water Company |

| DESCRIPTION | NUMBER OF UNITS | UNIT TYPE | UNIT COST | ESTIMATED COST |
|---|--------------------|--------------|--------------|-------------------|
| Engineering Services | | | | |
| Design Rehabilitation of Diversion Structure | 1 | LS | \$30,000.00 | \$25,000 |
| Geotechnical Investigation | 1 | LS | \$15,000.00 | \$15,000 |
| Survey | 1 | LS | \$3,000.00 | \$3,000 |
| Permitting | 1 | LS | \$3,000.00 | \$3,000 |
| SUBTOTAL | | | | \$46,000 |
| <u>Sheet Pile Diversion Dam Construction</u> | | | | |
| General | | | | |
| Clearing and Grubbing | 1 | LS | \$3,000.00 | \$3,000 |
| Earthwork | | | | |
| Excavation/Demolition Existing | 1 | LS | \$5,000.00 | \$5,000 |
| Grading | 1 | LS | \$2,000.00 | \$2,000 |
| Haul Excess Material | 1 | LS | \$20,000.00 | \$20,000 |
| Diversion Dam | | | | |
| Sheet Pile | 1,350 | SF | \$30.00 | \$40,500 |
| Angle Iron Cap | 1 | LS | \$700.00 | \$700 |
| Type M Riprap | 100 | CY | \$100.00 | \$10,000 |
| CDOT Type II Bedding | 50 | CY | \$50.00 | \$2,500 |
| Reclamation | | | | |
| Revegetation | 2 | AC | \$2,000.00 | \$4,000 |
| SUBTOTAL | | | | \$87,700 |
| Subtotal | | | | \$133,700 |
| MOBILIZATION (5%) | | | | \$4,400 |
| SURVEYING (STAKING) (2%) | | | | \$1,800 |
| CONTINGENCY (25%) | | | | \$33,500 |
| TOTAL | | | | \$173,400 |

Engineer's Opinion of Probable Construction Cost



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200
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Fax: (303) 452-2759

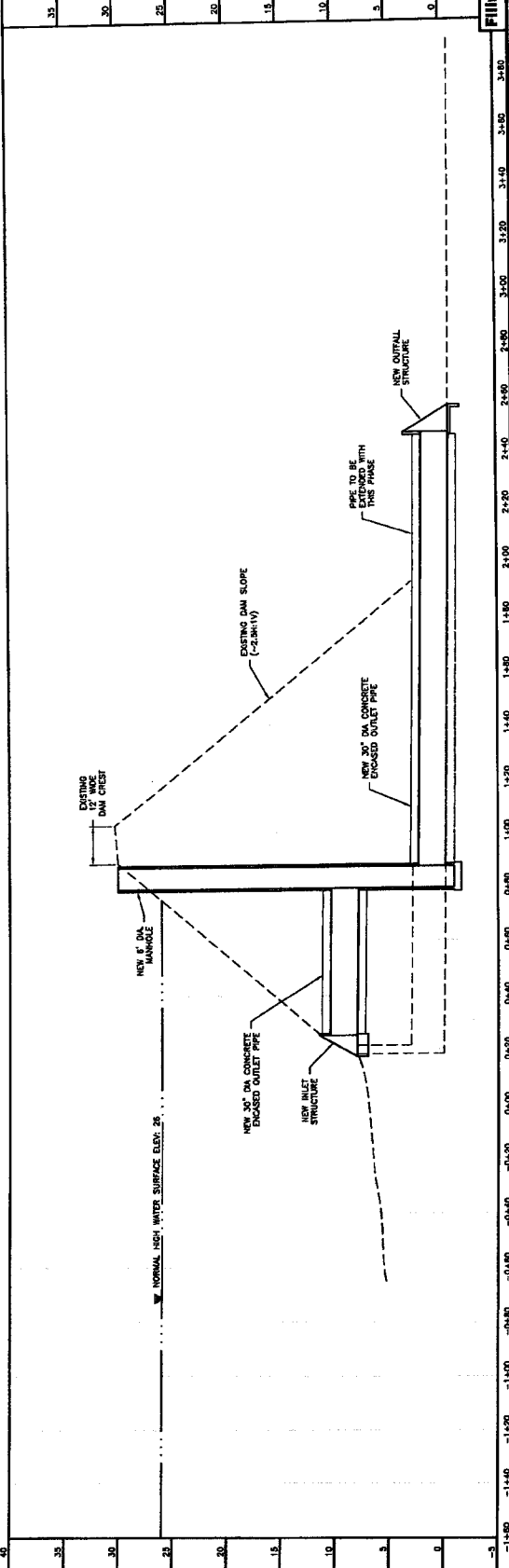
TWO RIVERS IRRIGATION WATER DISTRIBUTION SYSTEM REHABILITATION HCIC Headgate Ditch

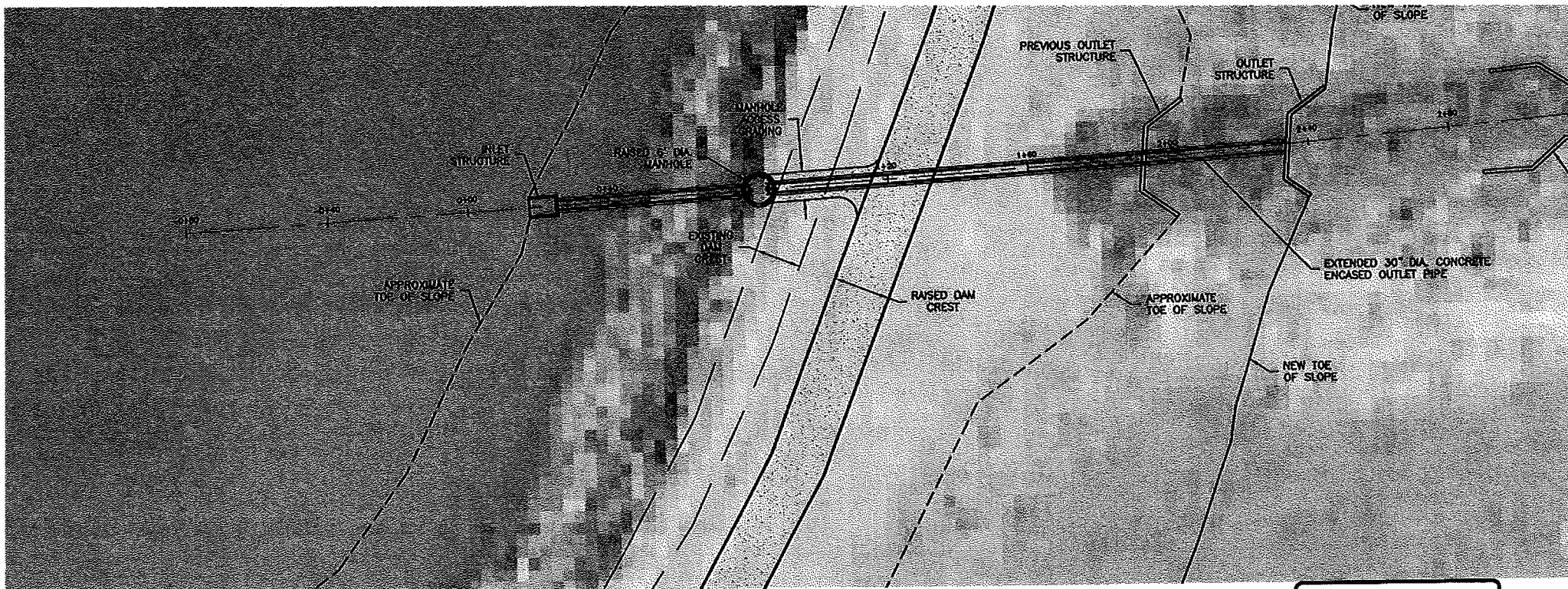
Structure ID Number 657, Water Division 2, Water District 14

| | |
|-----------|--------------------------|
| Job Name: | Two Rivers |
| Job No.: | 11-119 |
| By: | LF/CEC |
| Date: | 9/30/2011 |
| Project: | CWCB Loan Application |
| Client: | Two Rivers Water Company |

| DESCRIPTION | NUMBER OF UNITS | UNIT TYPE | UNIT COST | ESTIMATED COST |
|--|--------------------|--------------|--------------|-------------------|
| Engineering Services | | | | |
| Design Rehabilitation of Diversion Structure | 1 | LS | \$35,000.00 | \$35,000 |
| Geotechnical Investigation | 1 | LS | \$20,000.00 | \$20,000 |
| Survey | 1 | LS | \$3,000.00 | \$3,000 |
| Permitting | 1 | LS | \$10,000.00 | \$10,000 |
| SUBTOTAL | | | | \$68,000 |
| <u>Headgate Rehabilitation Construction</u> | | | | |
| General | | | | |
| Demolish and Remove Existing Gates | 1 | LS | \$10,000.00 | \$10,000 |
| Grading | 1 | LS | \$2,000.00 | \$2,000 |
| Diversion Structure | | | | |
| Rubicon FlumeGate FG 1675-2186 | 1 | LS | \$50,000.00 | \$50,000 |
| Reinforced Concrete | 18 | CY | \$750.00 | \$13,500 |
| Type M Riprap | 12 | CY | \$100.00 | \$1,200 |
| CDOT Type II Bedding | 6 | CY | \$50.00 | \$300 |
| River Return Structure | | | | |
| Rubicon SlipGate SG 1675-1804 | 2 | EA | \$35,000.00 | \$70,000 |
| SCADA Network | | | | |
| SCADA Components (including repeater) | 1 | LS | \$55,000.00 | \$55,000 |
| Labor | 1 | LS | \$10,000.00 | \$10,000 |
| SUBTOTAL | | | | \$212,000 |
| Subtotal | | | | \$280,000 |
| MOBILIZATION (5%) | | | | \$10,600 |
| SURVEYING (STAKING) (2%) | | | | \$4,300 |
| CONTINGENCY (25%) | | | | \$70,000 |
| TOTAL | | | | \$364,900 |

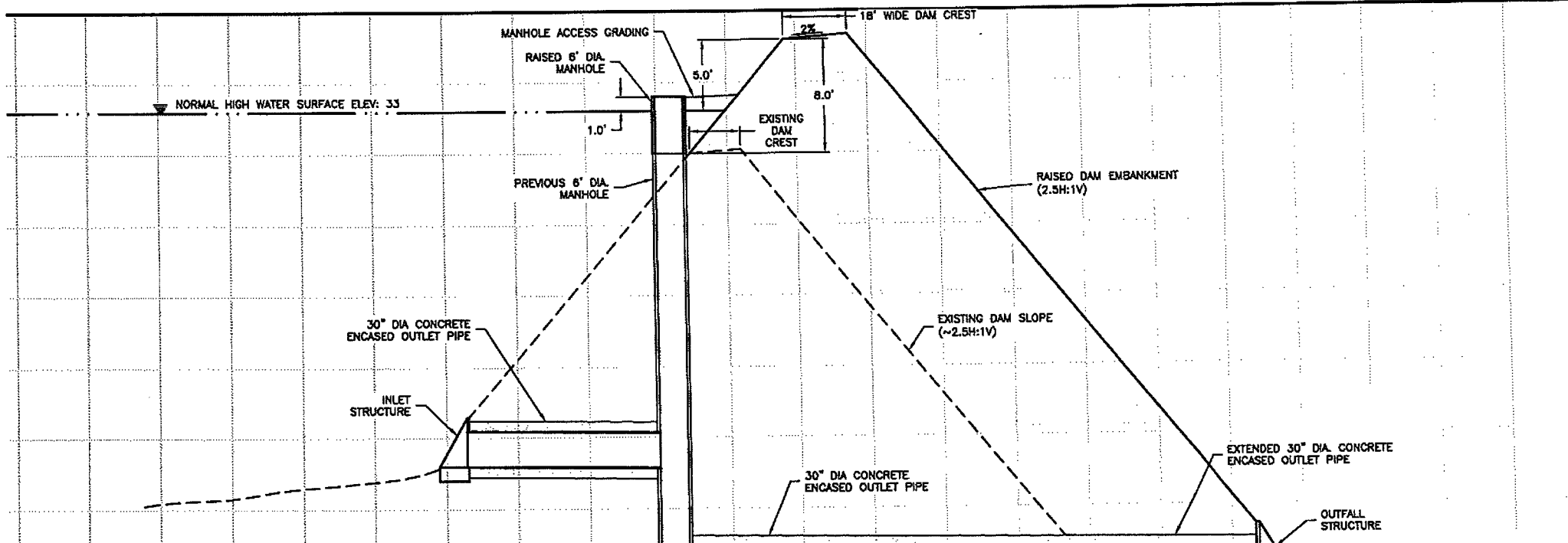
APPENDIX C - CONCEPTUAL DESIGN EXHIBITS

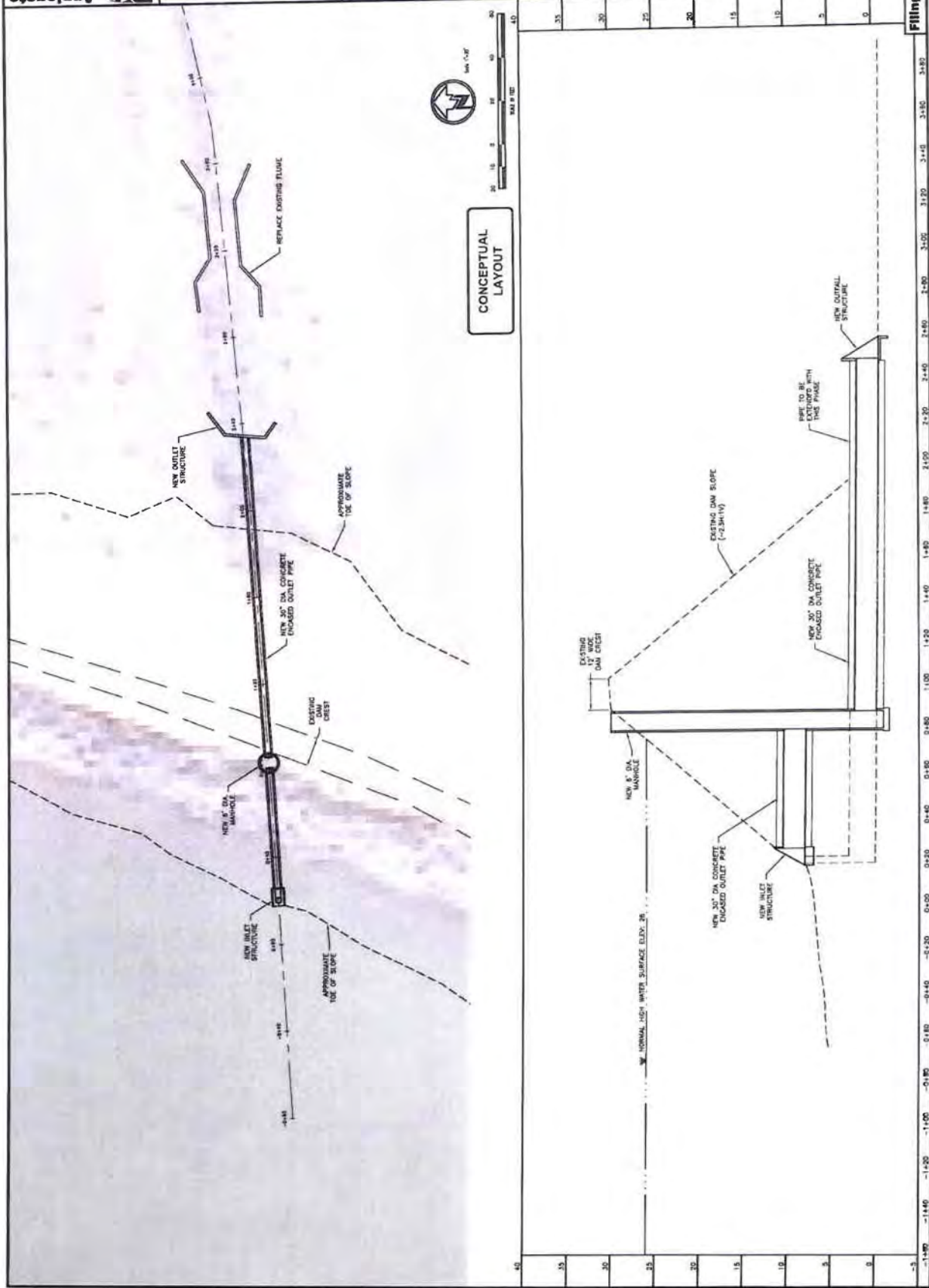




CONCEPTUAL
LAYOUT

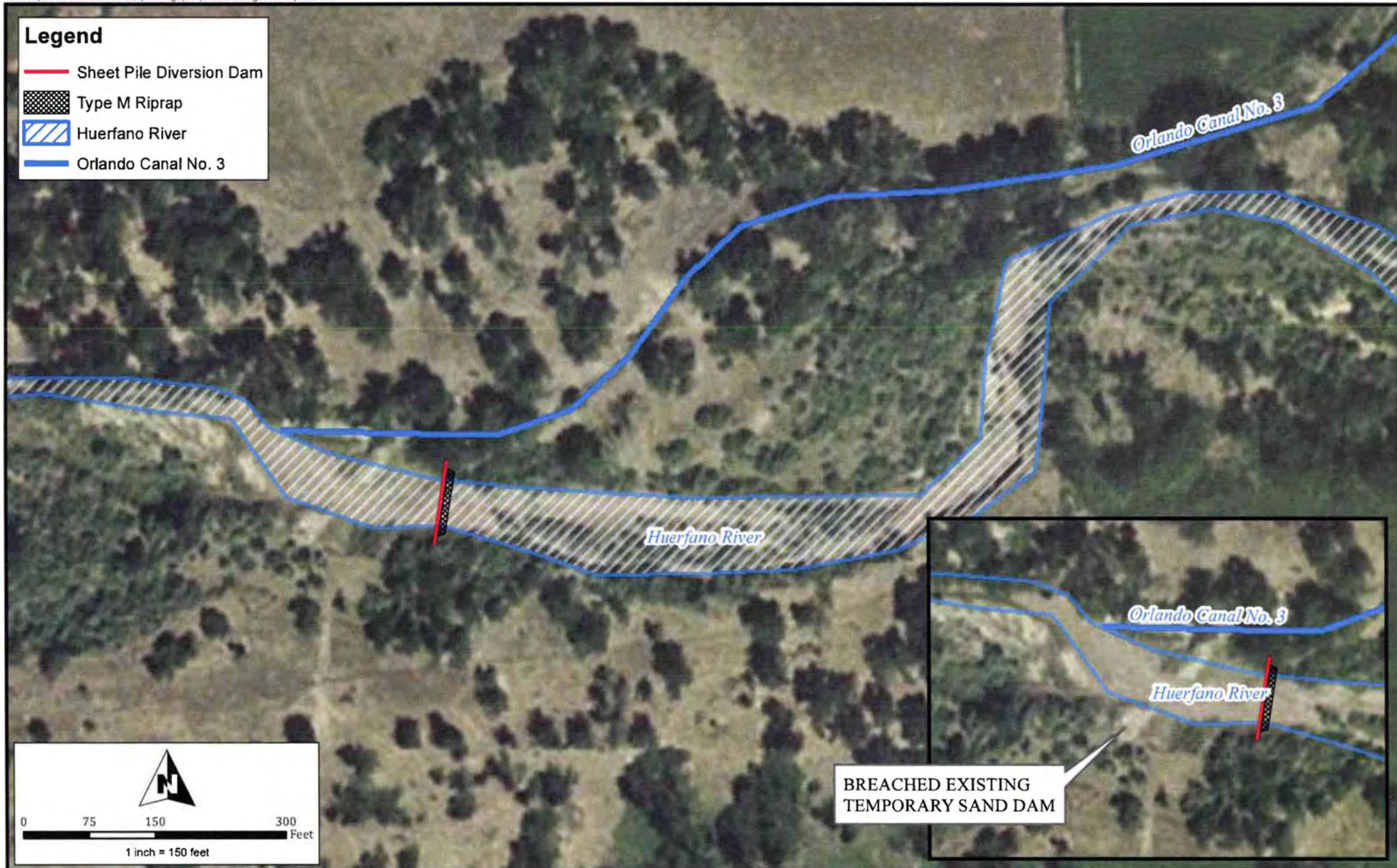
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Legend

- Sheet Pile Diversion Dam
- Type M Riprap
- Huerfano River
- Orlando Canal No. 3



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 Water Resource Advisors for the West
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 Denver, CO 80234-2728 Fax: (303) 452-2759
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Orlando Canal No. 3 Headgate Rehabilitation

Conceptual Plan

Date: 28 Sep 2011

Job #: 11-119

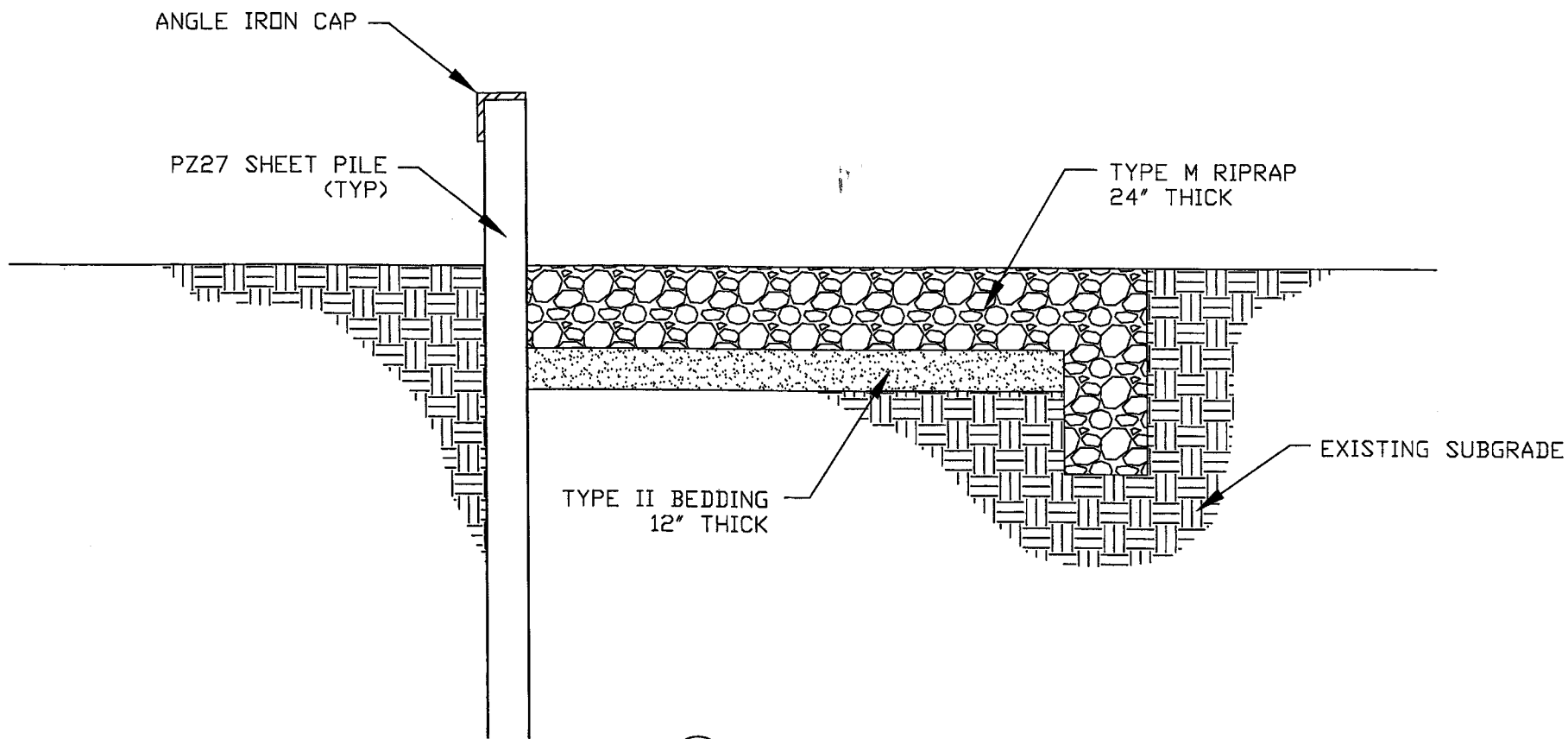
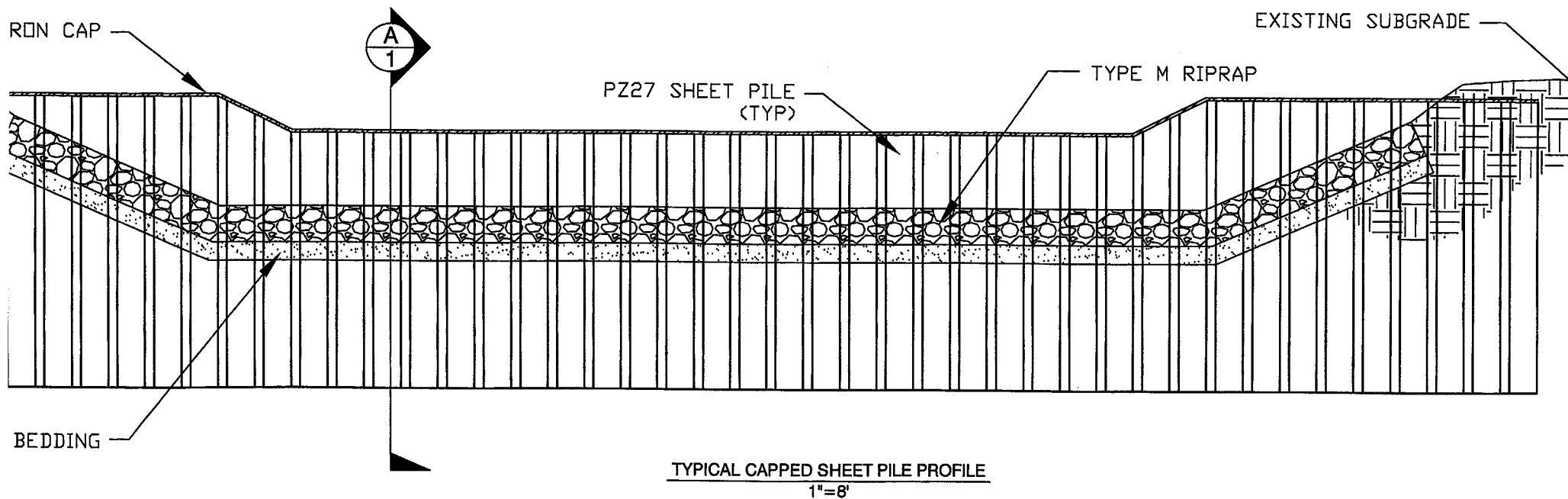
Drawn By: CEC

Figure:

1

Of:

1





20-FT OBERMAYER GATE

DEMOLISH AND REMOVE
EXISTING BUTTE VALLEY
DITCH HEADGATE STRUCTURE

CONCRETE OVERFLOW
STRUCTURE

INSTALL FOUR 4-FT SLUICE GATES



Legend

-  Rubicon SlipGate 1675-1804
-  SCADA Sensor
-  Rubicon FlumeGate 1675-2186
-  Return Culvert

Rubicon FlumeGate Located
 Within Concrete Structure with
 Type M Riprap at Outlet

Huerfano Valley Ditch

Huerfano River

Existing 4-ft Dam



0 75 150 300 Feet
 1 inch = 150 feet



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Huerfano County Irrigation Company (HCIC) Headgate Rehabilitation Conceptual Plan

Date: 29 Sep 2011

Job #: 11-119

Drawn By: CEC

Figure:

1

Of:

1



Rubicon SlipGate®
Advanced Slide Gate Technology

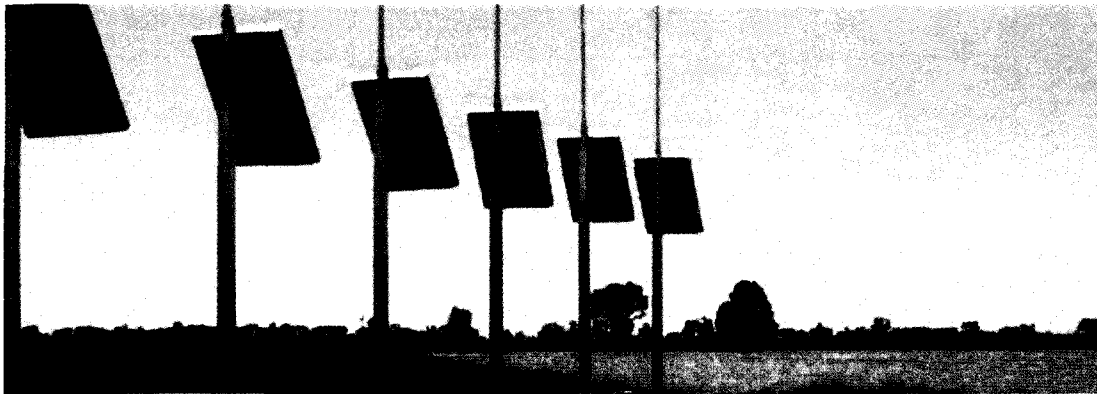


- Solar powered
- High-strength composite construction
- Unique robust drive mechanism
- Advanced control software
- Precision gate positioning
- Upstream and downstream water level control
- Sophisticated power management and control circuitry
- Unique seal design compliant with AWWA leakage standards
- Can be wall-mounted or channel-mounted to new or existing structures
- Easy wet or dry installation
- Low maintenance modular components
- Designed for high-volume production
- SCADA ready
- Over 2,000 sold worldwide

Rubicon SlipGate®

Rubicon SlipGate® is a revolution in water management, simplifying the process of controlling open canal flows through the use of precision engineering and integrated electronics.

SlipGate® delivers accurate measurement and control of your water resource – delivering water when you want it, where you want it and in the precise quantities you need.



A totally new gate concept

Rubicon SlipGate® is a modular undershot slide gate with integrated drive system, power supply, instrumentation, control hardware/software and wireless communications.

When fitted, its ultrasonic sensors enable accurate measurements of upstream and downstream water levels, while inbuilt gate positioning measurements and family of calculation algorithms provide robust flow calculation capabilities. SlipGate® can also be integrated with third-party flow meters.

Together with Rubicon's integrated Total Channel Control® software, SlipGate® provides accurate control over water flow and volume, delivering constant flows even with fluctuations in supply canal and on-farm water levels.

Quality design and construction

World-leading CableDrive™, FormiPanel™ and SolarDrive® technology is built into all Rubicon gate products.

CableDrive™ is our unique drive-train actuation system, ensuring precision gate positioning. FormiPanel™ is our high-strength sandwich panel construction technology and SolarDrive® power management and control circuitry guarantees reliable operation year after year.

Rubicon's quality control systems and processes are ISO9001 certified.

Ease of installation and operation

SlipGate® features Rubicon's standard interlocking slide-in frames and comes factory calibrated and configured, meaning it can be quickly installed into new and existing structures without specialist skills – even in the wet. Typical install times are two hours for frames and three hours for gates, including calibration.

Each gate can be easily controlled locally via an accessible touch-pad and LCD display and comes ready to connect to a broad range of existing SCADA networks for remote control and monitoring.

Maintenance

Every component of SlipGate® is designed to ensure minimal maintenance. SlipGate® features intelligent systems to comprehensively monitor gate function and report any malfunctions. Most ongoing maintenance can be performed annually by carrying out visual inspections and instructing the system to conduct self tests.

As with all of Rubicon's gate products, SlipGate®'s modular design means that components can be easily replaced in the field – minimizing downtime.

Integration with Total Channel Control®

SlipGate® installations, along with all of Rubicon's gate products can be immediately integrated with existing Total Channel Control® systems or integrated at a later date. Total Channel Control® is Rubicon's completely automated channel management system – providing on-demand water delivery, precise location of leakage and seepage losses and accurate measurement throughout the system – minimizing wastage and maximizing on-farm productivity.

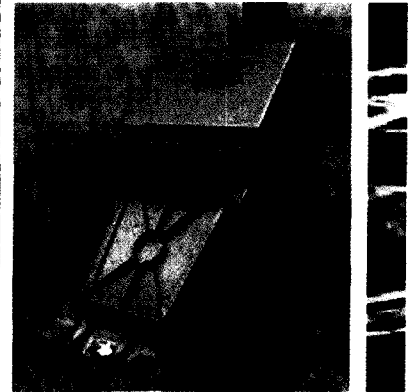
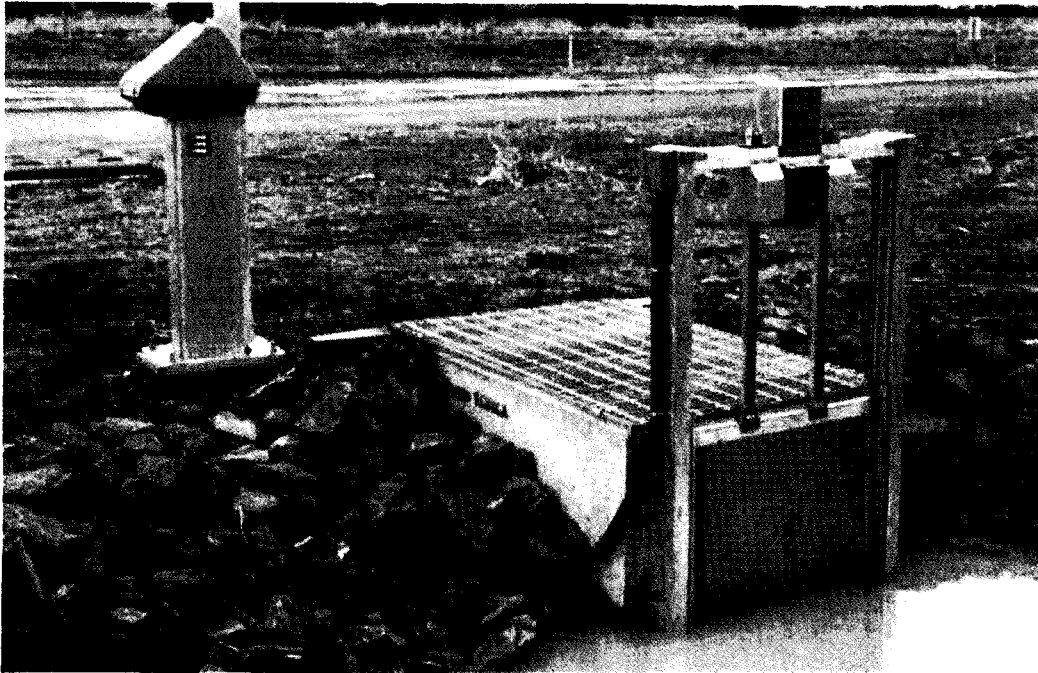
Rubicon's manufacturing capability

Rubicon's advanced manufacturing process can produce SlipGate® in high-volumes, with thousands already installed worldwide. SlipGate® is available in a variety of width, height and depth combinations to suit your needs.

Rubicon service

Rubicon's low-maintenance, high-reliability engineering is backed by a comprehensive warranty and our total commitment to customer service. We provide extensive technical support and service:

- Single point of contact account management
- 24/7 help via phone, web and email
- Hands-on training available
- Local support offices



Unique Gate Design

- Long-life design
- Precision manufactured
- High-strength FormiPanel™ aluminium composite laminate
- Drive system removes traditional height/weight ratio constraints
- Seals exceed AWWA leakage standards with .001 gal/ft/min in the seating & unseating direction
- Seal design supports bi-directional flow
- Flush bottom seal integrated with frame
- Easy in-field service

Accurate Measurement

- Upstream and downstream water level measurement options
- Additional flow measurement capability using third-party meters
- High precision digital instrumentation
- Reliable and long-life sensors
- Simple field commissioning
- Sensor error detection
- Easy field calibration

Unique Drive Mechanism

- Rubicon's unique CableDrive™ drive-train actuation system designed for harsh environments
- Precision gate position accuracy and repeatability
- Designed for high-duty cycle
- Minimal maintenance required
- Low power pinion and cable drive mechanism integrated into gate
- Compact, low profile drive mechanism eliminates need for elevated superstructure
- Precise redundant gate positioning and end of travel limits
- Manual hand crank capability

Control Capabilities

- Advanced control capabilities that can be prospectively defined
- Control modes include:
 - Position control
 - Flow control
 - Upstream level control
 - Downstream level control
 - Distant downstream level control
 - Total Channel Control

SolarDrive® Technology

- Microprocessor controlled
- Solid state motor switching
- Torque monitoring and control
- Soft starting and torque control maximizes drive system life
- Dynamic power management reduces power consumption
- Solar charging optimization
- Battery and solar panel health monitoring
- Provides total circuit protection
- Advanced self diagnostics
- Easy operation via touch-pad and LCD
- 12v DC power system
- Easy emergency operation via vehicle battery
- Trickle charge operation when mains power available

Pedestal Features

- Robust die-cast aluminium controller housing ideal for harsh environments
- Weather-proof and insect-proof
- Integrated mast and cabling
- Secure housing for instrumentation and batteries
- Loom termination
- Flexible mounting position to minimize safety risks
- Compact and efficient to transport

SCADA/PLC Network Ready

- Comes ready to connect to existing SCADA networks
- Factory configured SCADA parameters
- Compatible with:
 - Radio
 - Satellite
 - Trunk radio networks
 - DNP3
 - RS485
 - MDLC
 - MODBUS
 - 802.11
 - GSM/GPRS
 - 3G

This publication is issued to provide outline information only. Specifications are subject to change without notice.

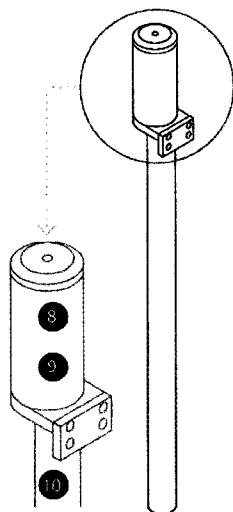
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RUBICON

- 1 SCADA ready
- 2 SolarDrive® power regulation system operates during extended periods of low light
- 3 Mast designed to withstand cyclonic weather conditions

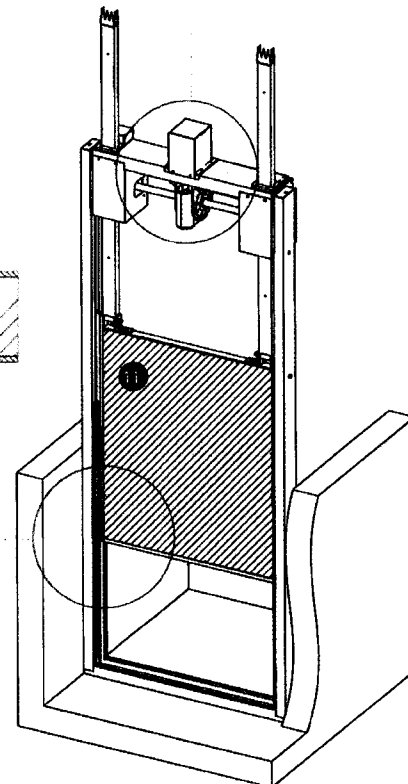
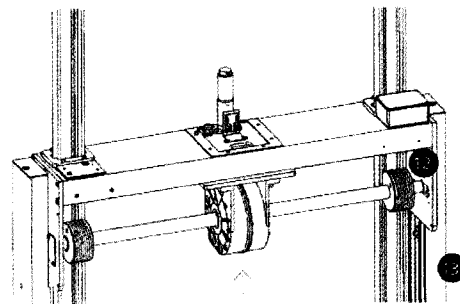
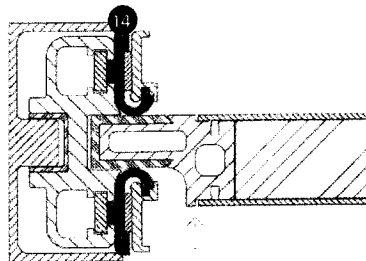
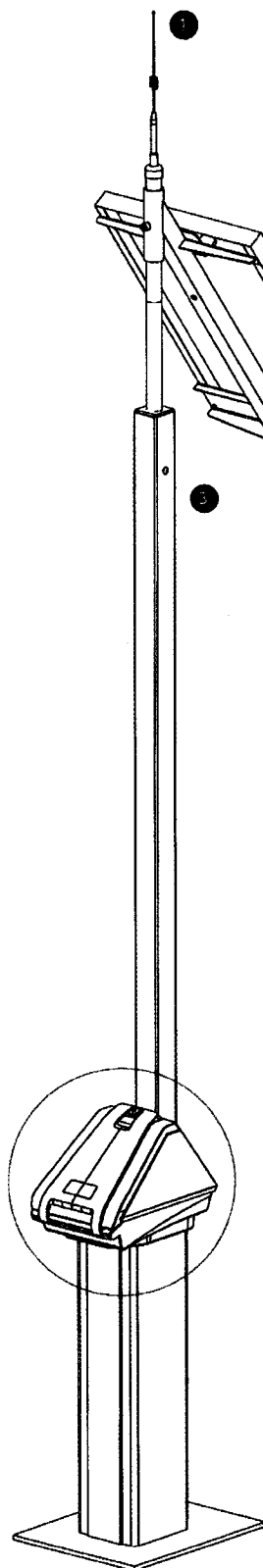
Controller Housing

- 4 Easy local operation via touch-pad and LCD display
- 5 Modular interchangeable housing and circuitry
- 6 Robust die-cast aluminium controller housing with secure lockable cover
- 7 Advanced control capabilities using integrated NeuroFlo® software



Precision Level Sensor

- 8 Self-calibrates on every reading against precision reference mark
- 9 Modbus data interface
- 10 Integrated ranging chamber permits laboratory accuracy in harsh field environments



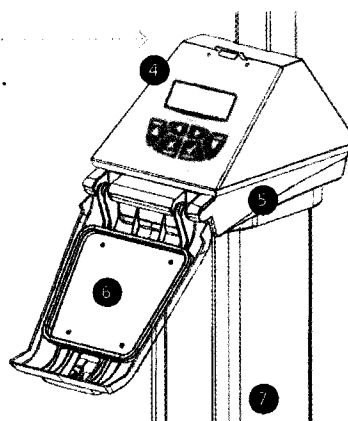
- 11 High-strength FormiPanel™ aluminium composite laminate

CableDrive™ Mechanism

- 12 Robust CableDrive™ drive-train actuation system for precise positioning and low maintenance
- 13 Interlocking slide-in frames for easy installation into new and existing structures

Unique Seal Design

- 14 Seals exceed AWWA leakage standards with .001 gal/ft/min in the seating & unseating direction



RUBICON

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Loveland, CO 80538
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www.rubicon.com.au
usa@rubicon.com.au

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1 Cato Street
Hawthorn East
Melbourne VIC 3123 Australia
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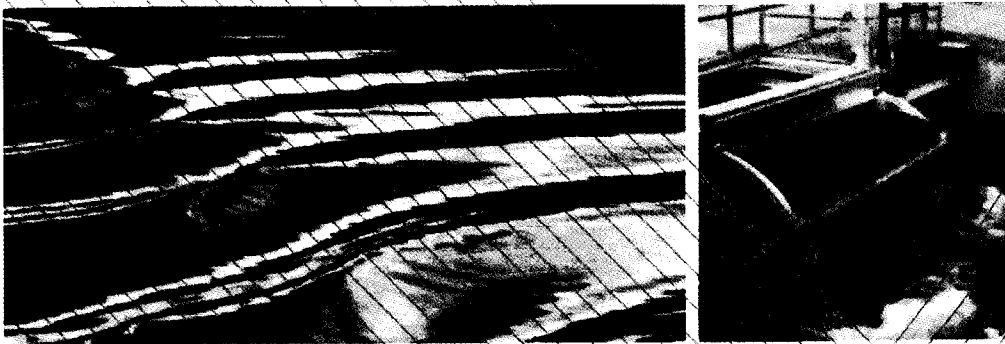
www.rubicon.com.au
enquiry@rubicon.com.au

Rubicon Systems Australia Pty Ltd
1A Wheeler Street
Shepparton VIC 3630 Australia
Telephone +61 3 5820 8800
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enquiry@rubicon.com.au



FlumeGate™
A New Gate Product
Transforming the
Water Industry

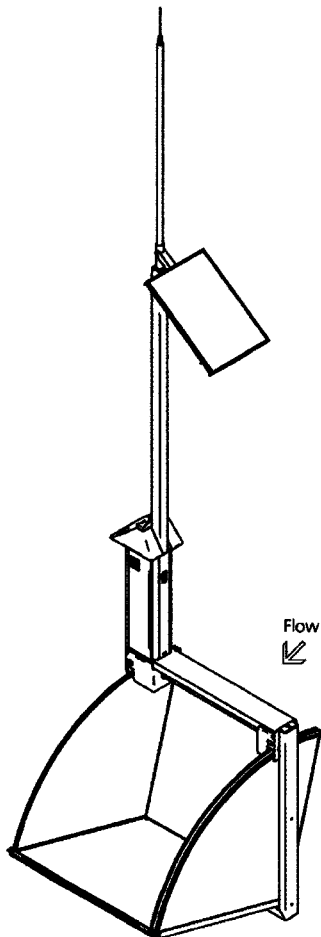
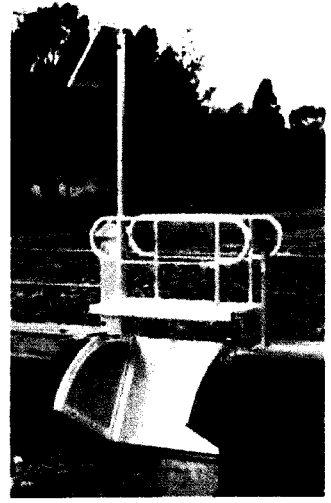
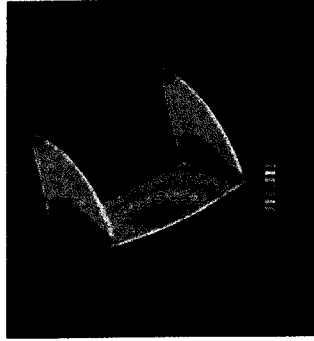
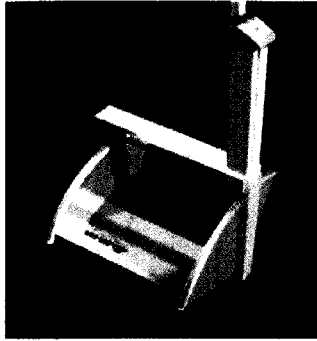


- Flow meter
- New Gate Mechanism
- Rubicon's high strength FormiPanel™ Technology
- Rubicon's NeuroFlo™ Control Software
- Rubicon's SolarDrive™ Technology
- Water Tight Seals
- Upstream/Downstream Water Levels
- Irrigation Meter Outlet
- Retro-fit to Channel Check & Drop structures
- Compact high quality design
- Designed for quantity production
- SCADA ready
- Simple to install
- Low maintenance
- Over 5,500 FlumeGates™ already sold world wide

FlumeGate™
(Patent Applied For)
Wide range of Gate Sizes
Suitable for Meter Outlets

The FlumeGate™ is both a flow **control gate** and **flow meter** that has become the established benchmark for the irrigation industry.

The FlumeGate™ is a high quality precision product that is characterized by its advanced design, modularity and extensive functionality.



New Gate Design

(Patent Applied For)

- Long life design
- Unique overshot gate concept
- Aluminium composite laminate
- Rubicon's high strength FormiPanel™ technology
- New water tight seal design
- Precision/high quality manufacturing
- Easy to service in field (eg. replace seal)

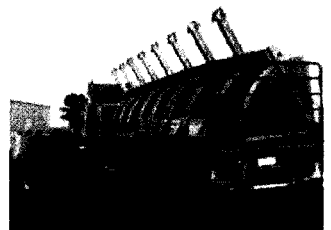
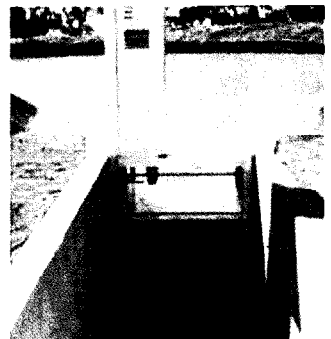
Flow Measurement

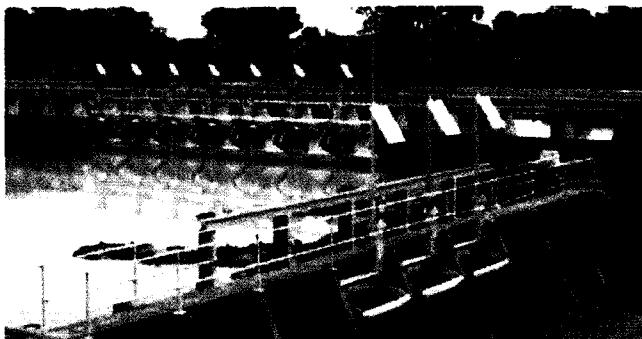
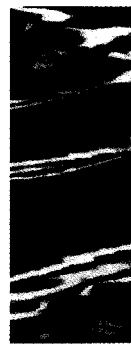
(Patent Applied For)

- Accurate flow meter
- Both free and submerged flow
- Unique flow measurement technology developed by Rubicon
- Integrated with gate design
- In field accuracy verification
- Easy field calibration

Upstream Downstream Water Level Instrumentation

- Dual redundant water level sensors incorporated in gate frame
- High precision digital instruments
- Reliable and long life
- No commissioning required
- Sensor error detection





Drop In – Ready To Use Interlocking slide-in frame (Patent Applied For)

- Factory calibrated/Pre-commissioned
- Easy to install
- Can be installed in the wet
- No specialist skills required
- Low installation time and cost
- Factory set SCADA configuration

New Drive Mechanism (Patent Applied For)

- Designed for high duty cycle
- Positive actuation in both directions – no 'floating' gate, slack cable or gate jam problems
- Low power, pinion and cable drive mechanism integrated with gate design
- Suited to harsh environment
- Debris resistant, obstruction free gate and drive mechanism
- Low profile, compact drive mechanism – no elevated superstructure
- Precise redundant gate positioning and end of travel limits

Rubicon's NeuroFlo™ Control (Patent Applied For)

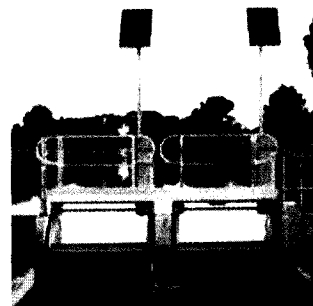
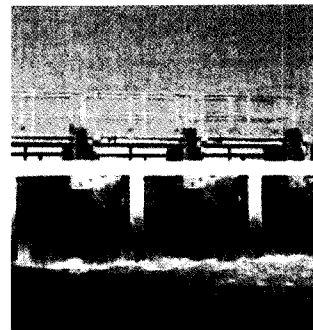
- Achieves optimal performance
- Total Channel Control (TCC®)
- Flow Control
- Upstream/downstream control
- Distant downstream control
- Network model

Rubicon's SolarDrive™ Technology

- Microprocessor controlled
- Solid state motor switching
- Torque monitoring and control
- Soft starting and torque control extends life of drive system
- Dynamic power management to reduce power requirements
- Solar charging optimisation
- Battery and solar panel health monitoring
- Provides total circuit protection
- Performs system diagnostics
- Comprehensive gate management systems
- LCD push-button operation

Integrated to SCADA/PLC Network

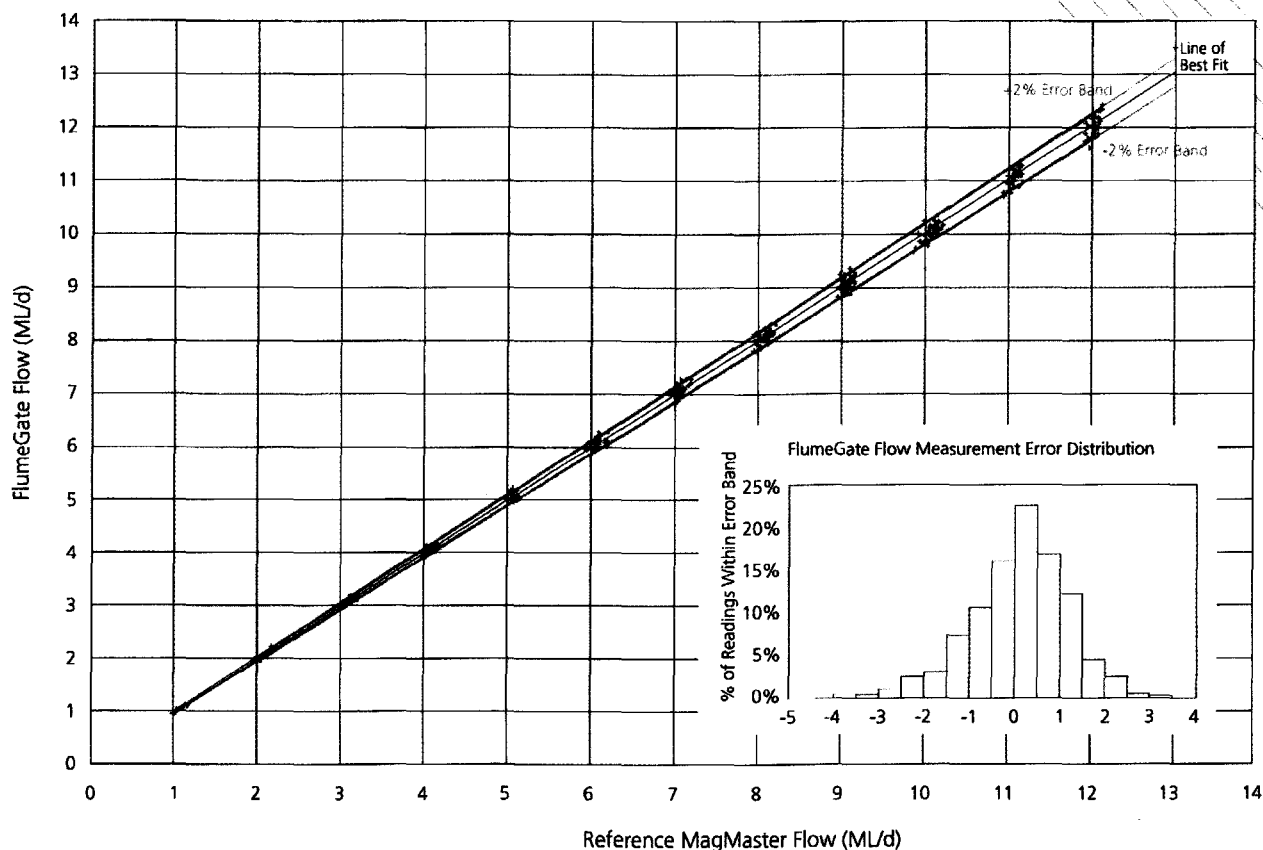
- Comes ready to connect to customer SCADA network
- Radio
- RS485
- Satellite
- Trunk radio networks
- MDLC
- MODBUS
- DNP3
- 802.11
- Gate supplied with factory configured SCADA parameters



Total Channel Control®, TCC®, NeuroFlo®, SolarDrive®, SlipGate® are registered trademarks and the Rubicon logo, FlumeGate™, SCADAConnect™, FarmConnect™ are trademarks of Rubicon Research Pty Ltd. These components of the systems are the subject of patent applications and granted patents in Australia and elsewhere.


RUBICON

FlumeGate™ Flow Accuracy $\pm 2\%$



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enquiry@rubicon.com.au

APPENDIX D – PROJECT SCHEDULE

AG File No 11-119
October 20, 2011

Project: Two Rivers System Rehabilita
Date: Thu 10/20/11

THE UNIVERSITY OF CHICAGO

◆

10

Deadline

 **Two Rivers**
WATER COMPANY
2000 S. Colorado Blvd.
Annex Building Suite 420
Denver, CO 80222

October 20, 2011

Ms. Anna Mauss
Colorado Water Conservation Board
1580 Logan, Ste. 600
Denver, CO 80203

Re: Revised Loan Application and Feasibility Report

Dear Ms. Mauss:

Thank you for your patience and cooperation for the last couple of days. As we discussed, please find enclosed a revised Loan Application and Feasibility Study for the Orlando Reservoir Outlet Works renovation and upgrades to headgate structures. The engineering documents remain the same.

I am also enclosing a summary memorandum from The Applegate Group regarding our progress on Phase I at Cucharas Dam which includes photos of the construction authorized by the SEO. We are on track to complete the Phase I project this quarter.

Please feel free to call if you have any questions. I look forward to seeing you next week when we take our tour.

Sincerely,



Gary Barber
President

Memorandum

Date: October 19, 2011 AG Job No.: 10-131
To: Gary Barber, Two Rivers Water Company
From: Lisa Farmer, PE
Subject: Status Update for Cucharas Phase I Dam Rehabilitation

The Colorado State Dam Safety Branch has approved a Phased approach to the Cucharas project: Phase I addressing dam compliance of the existing dam, or interim dam until Phase II (design and construction of the new dam) can be completed. Applegate Group is analyzing the option to structurally lower the existing emergency spillway to remove the current fill restriction and bring the existing dam into compliance with the Colorado's *Rules and Regulations for Dam Safety and Dam Construction*. Additionally, a hazard classification analysis was performed to establish the modifications necessary for the emergency spillway.

GEI Consultants, Inc. began designing the new dam and previously prepared a Hydrology and Incremental Damage Analysis Report for the State. We have obtained GEI's HEC-RAS and HMS files to perform our analysis of the Phase I spillway modifications. The HEC-RAS file was modified to include the existing rock-fill dam section and downstream channel. A sunny day breach was simulated with the reservoir water surface elevation set to gage height 100 ft. The 2-year flood indicated by StreamStats was used as the baseflow. Our analysis extended past the confluence with the Arkansas River, consistent with GEI's model, until the breach flood elevation is within 1 foot higher than the base flood elevation. Currently, our analysis identifies two critical sections downstream of the dam. The first, designated by GEI as the Wooten property and located on the Huerfano River, experiences a flood depth of 1.5 feet and velocities of 2.4 feet per second at the critical cross section. The second, designated by GEI as Ark. Structures I1 and I2 and located on the Arkansas River, experience a flood depth of 1.2 feet and velocities of 1.1 feet per second at the critical cross section. Because both sections resulted in flooding depths of less than 2 feet and velocity-depth products of less than 7, this indicates the existing dam is Significant Hazard. Note that a Low Hazard rating may also be possible provided that the failure of the dam does not cause extensive and widespread destruction of and damage to multiple minor improvements; we are currently preparing inundation mapping to assist with this determination.

The proposed modification of the existing emergency spillway consists of removing the ogee weir and excavating the rock to the current reservoir fill restriction level of gage elevation 100 ft (5,745.5 ft elevation). As a Significant Hazard dam, the modified spillway inflow design flood would be established as 60% of the PMP, or established by an Incremental Damage Analysis. Note that if a Low Hazard rating is warranted, the modified spillway inflow design flood would be established by the NOAA Atlas II 24-hour 100-year storm event.

The modified spillway will first be evaluated for the ability to pass the NOAA Atlas II 24-hour 100-year storm event. The inflow hydrograph for this storm event was determined by GEI Consultants, Inc. in their June 2010 report. A reservoir capacity curve obtained from the Stillwater Engineering *Cucharas Reservoir Elevation-Storage Data* table dated September 5, 2006 will also be utilized. The discharge curve for the existing outlet was previously developed using plans for the outlet dated September 1914 in combination with the FlowMaster tool (v8i). The discharge rating curve for the modified spillway will also be necessary to perform the reservoir routing computations.

We will develop a discharge rating curve for the proposed modified spillway using a HEC-RAS model. The HMS model will then be utilized to obtain the dam breach hydrograph. Using this hydrograph and the HEC-RAS model for the existing dam will provide indication if the proposed modified spillway can affectively convey the 100-yr flood. Other floods such as 5% and 10% of the PMP can also be considered through and Incremental Damage Analysis. The purpose of the IDA would be to reduce the inflow design flood for the interim dam as low as practically safe to minimize the modifications necessary to the emergency spillway during Phase I. We understand Two Rivers Water Company would like to minimize expenditures in Phase I as that money becomes lost with the replacement of the dam in Phase II.

A meeting with the Dam Safety Engineer took place on October 5, 2011 to review the results of the HEC-RAS modeling. Mark Perry was in general consensus with the analysis and assumptions used. He recommended continuing our model down the Arkansas River and provided input on cross checking potential critical sections. The Draft Hazard Classification Report for the existing dam with the spillway lowered to gage elevation 100 feet will be prepared and ready for review by the State Dam Safety Branch by November 15, 2011. By that time we will also have a very good idea of the preliminary design for the emergency spillway modifications.





OFFICE OF THE SECRETARY OF STATE
OF THE STATE OF COLORADO

CERTIFICATE

I, Scott Gessler, as the Secretary of State of the State of Colorado, hereby certify that, according to the records of this office,

Two Rivers Water Company

is a **Corporation** formed or registered on 12/20/2002 under the law of Colorado, has complied with all applicable requirements of this office, and is in good standing with this office. This entity has been assigned entity identification number 20021354505.

This certificate reflects facts established or disclosed by documents delivered to this office on paper through 09/28/2011 that have been posted, and by documents delivered to this office electronically through 09/29/2011 @ 14:33:39.

I have affixed hereto the Great Seal of the State of Colorado and duly generated, executed, authenticated, issued, delivered and communicated this official certificate at Denver, Colorado on 09/29/2011 @ 14:33:39 pursuant to and in accordance with applicable law. This certificate is assigned Confirmation Number 8055081.



A handwritten signature in blue ink, reading "Scott Gessler", is written over a horizontal line.

Secretary of State of the State of Colorado

*****End of Certificate*****

Notice: A certificate issued electronically from the Colorado Secretary of State's Web site is fully and immediately valid and effective. However, as an option, the issuance and validity of a certificate obtained electronically may be established by visiting the Certificate Confirmation Page of the Secretary of State's Web site, <http://www.sos.state.co.us/biz/CertificateSearchCriteria.do> entering the certificate's confirmation number displayed on the certificate, and following the instructions displayed. Confirming the issuance of a certificate is merely optional and is not necessary to the valid and effective issuance of a certificate. For more information, visit our Web site, <http://www.sos.state.co.us/> click Business Center and select "Frequently Asked Questions."



Document must be filed electronically.
Paper documents will not be accepted.

Document processing fee
Fees & forms/cover sheets
are subject to change.

To access other information or print
copies of filed documents,
visit www.sos.state.co.us and
select Business Center.

\$50.00

Colorado Secretary of State
Date and Time: 07/28/2009 07:07 AM
ID Number: 20091398146
Document number: 20091398146
Amount Paid: \$50.00

ABOVE SPACE FOR OFFICE USE ONLY

Articles of Incorporation for a Profit Corporation

filed pursuant to § 7-102-101 and § 7-102-102 of the Colorado Revised Statutes (C.R.S.)

1. The domestic entity name for the corporation is

Two Rivers Water Company

(The name of a corporation must contain the term or abbreviation "corporation", "incorporated", "company", "limited", "corp.", "inc.", "co." or "ltd.". See §7-90-601, C.R.S. If the corporation is a professional or special purpose corporation, other law may apply.)

(Caution: The use of certain terms or abbreviations are restricted by law. Read instructions for more information.)

2. The principal office address of the corporation's initial principal office is

Street address

2000 S Colorado Blvd

(Street number and name)

Suite 200

Denver

(City)

CO

(State)

80222

(ZIP/Postal Code)

United States

(Province – if applicable)

(Country)

Mailing address

(leave blank if same as street address)

(Street number and name or Post Office Box information)

(City)

(State)

(ZIP/Postal Code)

(Province – if applicable)

(Country)

3. The registered agent name and registered agent address of the corporation's initial registered agent are

Name

(if an individual)

McKowen

(Last)

John

(First)

R

(Middle)

(Suffix)

OR

(if an entity)

(Caution: Do not provide both an individual and an entity name.)

Street address

2000 S Colorado Blvd

(Street number and name)

Suite 200

Denver

(City)

CO

(State)

802222

(ZIP/Postal Code)

Mailing address

(leave blank if same as street address)

(Street number and name or Post Office Box information)

(City)

CO
(State)

(ZIP/Postal Code)

(The following statement is adopted by marking the box.)

☒ The person appointed as registered agent above has consented to being so appointed.

4. The true name and mailing address of the incorporator are

Name

(if an individual)

McKowen

(Last)

John

(First)

R

(Middle)

(Suffix)

OR

(if an entity)

(**Caution:** Do not provide both an individual and an entity name.)

Mailing address

2000 S Colorado Blvd

(Street number and name or Post Office Box information)

Suite 200

Denver

(City)

CO

(State)

80222

(ZIP/Postal Code)

United States

(Province – if applicable)

(Country)

(If the following statement applies, adopt the statement by marking the box and include an attachment.)

☐ The corporation has one or more additional incorporators and the name and mailing address of each additional incorporator are stated in an attachment.

5. The classes of shares and number of shares of each class that the corporation is authorized to issue are as follows.

(If the following statement applies, adopt the statement by marking the box and enter the number of shares.)

☒ The corporation is authorized to issue 100,000,000 common shares that shall have unlimited voting rights and are entitled to receive the net assets of the corporation upon dissolution.

(If the following statement applies, adopt the statement by marking the box and include an attachment.)

☐ Additional information regarding shares as required by section 7-106-101, C.R.S., is included in an attachment.

(**Caution:** At least one box must be marked. Both boxes may be marked, if applicable.)

6. (If the following statement applies, adopt the statement by marking the box and include an attachment.)

☐ This document contains additional information as provided by law.

7. (**Caution:** Leave blank if the document does not have a delayed effective date. Stating a delayed effective date has significant legal consequences. Read instructions before entering a date.)

(If the following statement applies, adopt the statement by entering a date and, if applicable, time using the required format.)

The delayed effective date and, if applicable, time of this document is/are _____.
(mm/dd/yyyy hour:minute am/pm)

Notice:

Causing this document to be delivered to the Secretary of State for filing shall constitute the affirmation or acknowledgment of each individual causing such delivery, under penalties of perjury, that the document is the individual's act and deed, or that the individual in good faith believes the document is the act and deed of the person on whose behalf the individual is causing the document to be delivered for filing, taken in conformity with the requirements of part 3 of article 90 of title 7, C.R.S., the constituent documents, and the organic statutes, and that the individual in good faith believes the facts stated in the document are true and the document complies with the requirements of that Part, the constituent documents, and the organic statutes.

This perjury notice applies to each individual who causes this document to be delivered to the Secretary of State, whether or not such individual is named in the document as one who has caused it to be delivered.

8. The true name and mailing address of the individual causing the document to be delivered for filing are

| | | | |
|---|---------------|-------------------|----------|
| McKowen | John | R | |
| (Last) | (First) | (Middle) | (Suffix) |
| 2000 S Colorado Blvd | | | |
| (Street number and name or Post Office Box information) | | | |
| Suite 200 | | | |
| Denver | CO | 80222 | |
| (City) | (State) | (ZIP/Postal Code) | |
| | United States | | |
| (Province – if applicable) | (Country) | | |

(If the following statement applies, adopt the statement by marking the box and include an attachment.)

- ☐ This document contains the true name and mailing address of one or more additional individuals causing the document to be delivered for filing.

Disclaimer:

This form/cover sheet, and any related instructions, are not intended to provide legal, business or tax advice, and are furnished without representation or warranty. While this form/cover sheet is believed to satisfy minimum legal requirements as of its revision date, compliance with applicable law, as the same may be amended from time to time, remains the responsibility of the user of this form/cover sheet. Questions should be addressed to the user's legal, business or tax advisor(s).

NAVIDEC CAPITAL, INC.

BYLAWS

ARTICLE I

OFFICES

Section 1. Registered Office. Until the Board of Directors otherwise determines, the registered office of the Corporation shall be 6399 South Fiddlers Green Circle, Suite 300, Greenwood Village, Colorado 80111, but such registered office may be changed from time to time by the Board of Directors in the manner provided by law and need not be identical to the principal place of business of the Corporation.

Section 2. Other Offices. The Corporation may also have offices at such other places or locations, as the Board of Directors may, by resolution, from time to time determine or the business of the Corporation may require.

ARTICLE II

SHAREHOLDERS

Section 1. Annual Meeting. The annual meeting of the shareholders shall be held on the first Tuesday in June of each year, at 10:00 o'clock A.M., Mountain Standard Time, if not a legal holiday, and if a legal holiday, then at the same hour of the day on the next succeeding business day, for the purpose of electing directors and for the transaction of any and all other business as may properly be brought before or submitted to the meeting. Any and all business of any nature or character whatsoever may be transacted, and action may be taken thereon, at any annual meeting, except as otherwise provided by law or by these Bylaws.

Each annual meeting of the shareholders, respectively, shall be held at the principal place of business of the Corporation, or at such other place within or without the State of Colorado as may be determined by the Board of Directors.

Section 2. Special Meetings. Each special meeting of the shareholders shall be held, respectively, at the principal place of business of the Corporation, or at such other place within or without the State of Colorado as may be determined by the Board of Directors.

Special meetings of the shareholders for any purpose or purposes, unless otherwise prescribed by statute, or by law or by the Certificate of Incorporation of the Corporation, may be called by the President or by a Vice President or by the Board of Directors or by the then holders of at least ten per cent of the then issued and outstanding voting shares of the capital stock of the Corporation entitled to be voted at such meeting, of any class if there be more than one class of such stock entitled to vote on any matter to be submitted to the particular meeting, and shall be called by the President or Secretary at the request in writing of a majority of the Board of Directors or at the request in writing of shareholders owning as much as 10% in amount of the entire capital stock of the Corporation, or of any class if there be more than one class, issued and outstanding and entitled to vote. Such request shall state the purpose or purposes of the proposed meeting.

Section 3. Notices of Shareholders' Meetings. Written or printed notice stating the place, day and hour of each meeting of the shareholders, and, in case of a special meeting, the purpose or

purposes for which the meeting is called, shall be delivered not less than ten nor more than fifty days before the date of the meeting either personally or by mail, by or at the direction of the President, a Vice President, the Secretary, or the officer or person or persons calling the meeting, to each shareholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the shareholder at his address as it appears on the stock transfer books of the Corporation, with postage thereon prepaid.

Section 4. Quorum of Shareholders. The holders of a majority of the shares entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of shareholders. The vote of the holders of a majority of the shares entitled to vote and thus represented at a meeting at which a quorum is present shall be the act of the shareholders' meeting, unless the vote of a greater number is required by law, the Certificate of Incorporation or these Bylaws.

Section 5. Adjournments of Annual and Special Meetings of the Shareholders. If the holders of the amount of stock necessary to constitute a quorum shall fail to attend any meeting of the shareholders in person or by proxy; then the holders of a majority of the votes of the shareholders present, in person or by proxy, and entitled to vote there at, may adjourn any such meeting from time to time without notice, other than by announcement at the meeting, until holders of the amount of stock requisite to constitute a quorum shall be present at the particular meeting or at any adjournment or adjournments thereof, in person or by proxy. The holders of a majority of the votes of the shareholders present, in person or by proxy, and entitled to vote at any meeting, may also adjourn any, annual or special meeting of the shareholders from time to time and without notice, other than by announcement at the meeting of the time and place at which the meeting will reconvene, until the transaction of any and all business submitted or proposed to be submitted to such meeting or any adjournments thereof shall have been completed. At any such adjourned meeting at which a quorum is present, in person or by proxy, any business may be transacted which might have been transacted at the meeting as originally notified or called.

Section 6. Meetings of the Shareholders. The President of the Corporation, or in the event of his absence or omission or refusal to so act, a Vice President of the Corporation shall call each meeting of the shareholders to order and shall act as Chairman of such meeting. If for any reason whatever neither the President nor a Vice President of the Corporation acts or will act as the Chairman of the meeting of shareholders, then the shareholders present, in person or by proxy, and entitled to vote there at may by majority vote, appoint a Chairman who shall act as Chairman of the meeting.

The Secretary of the Corporation, or in the event of his absence, omissions, or refusal to act, an Assistant Secretary shall act as Secretary of each meeting of the shareholders. If for any reason whatever neither the Secretary nor an Assistant Secretary acts or will act as Secretary of the meeting of shareholders, then the Chairman of the meeting, or if he fails to do so, the shareholders present, either in person or by proxy, and entitled to vote there at may by majority vote appoint any person to act as Secretary of the meeting and such person shall act as Secretary of the meeting.

Section 7. Attendance and Proxies. Each shareholder entitled to vote at the particular shareholders' meeting may attend such meeting and vote in person or may attend such meeting by proxy, and vote by such proxy, appointed by instrument in writing subscribed by the shareholder or by such shareholder's duly authorized agent or attorney-in-fact and filed with the Secretary of the Corporation before or at the time of the particular meeting, and the attendance or the vote at any such meeting of a proxy of any such shareholder so appointed shall for all purposes be considered as the attendance or vote in person of such shareholder. No proxy shall be valid after eleven months from the date of its execution unless a longer period is expressly provided in the proxy. Each proxy shall be

revocable unless expressly provided therein to be irrevocable, and in no event shall it remain irrevocable for a period of more than eleven months.

Section 8. Voting of Shares. At each meeting of the shareholders, each outstanding share, regardless of class, standing in the shareholder's name on the stock and transfer books and records of the Corporation, and entitled to vote there at, shall be entitled to one (1) vote, subject however, to the provisions of Section 6 of Article VIII of these Bylaws, and excepting only as may be otherwise provided or required by law, on each matter submitted to a vote at such meeting, unless the voting rights of the shares of any class or classes are limited or denied by the Certificate of Incorporation as permitted by law. Treasury shares, shares of its own stock owned by another corporation, the majority of the voting stock of which is owned or controlled by it, and shares of its own stock held by a corporation in a fiduciary capacity shall not be voted, directly or indirectly, at any meeting, and shall not be counted in determining the total number of outstanding shares at any given time.

At each election for directors by the shareholders, every shareholder entitled to vote at such election shall have the right to vote, in person or by proxy, the number of shares of the capital stock of the Corporation owned by him for each of as many candidates as are to be elected and for whose election he has a right to vote.

Section 9. Voting of Shares Owned by Another Corporation. Shares of stock of this Corporation standing in the name of another corporation, domestic or foreign, on the books and records of this Corporation and having voting rights may be voted by such officer, agent or proxy as the Bylaws of such other corporation may authorize, or, in the absence of such authorization, as the Board of Directors of such other corporation may determine, subject to such provisions of the Colorado Business Corporation Act as may be applicable in any instance.

Section 10. Shares Held by Fiduciaries, Receivers, Pledges. Shares held by an administrator, executor, guardian, or conservator, may be voted by him so long as such shares forming a part of an estate are in the possession and forming a part of the estate being served by him, either in person or by proxy, without a transfer of such shares into his name. Shares standing in the name of a trustee may be voted by him, either in person or by proxy, but no trustee shall be entitled to vote shares held by him unless such shares shall have been transferred into his name as trustee. Shares standing in the name of a receiver on the books and records of this Corporation may be voted by such receiver, and shares held by or under the control of a receiver may be voted by such receiver without such shares being transferred into his name if appropriate authority to do so be contained in an appropriate order of the Court by which such receiver was appointed. A shareholder whose shares are pledged shall be entitled to vote such shares until such shares have been transferred on the books and records of the Corporation into the name of the pledgee, unless in the transfer by the pledgor on the books and records of the Corporation, he shall have expressly empowered the pledgee to vote such shares, and thereafter the pledgee shall be entitled to vote the shares so transferred.

Section 11. Decisions at Meetings of Shareholders. At all meetings of the shareholders all questions, business and matters, except those the manner of deciding which is otherwise expressly governed by the Colorado Business Corporation Act or by the Articles of Incorporation or by these Bylaws, shall be decided by the vote of the holders of a majority of the votes of the shareholders of the Corporation present in person or by proxy, and entitled to vote, a quorum being present. All voting shall be viva voice, except that upon the determination of the officer or person presiding at the meeting or upon the demand of any qualified voter or his proxy, voting on any further question, matter or business at such meeting shall be by ballot. In the event any business, question or matter is so voted upon by ballot, then each ballot shall be signed by the shareholder voting or by his proxy and shall state the number of shares so voted.

Section 12. List of Shareholders. A complete list of shareholders entitled to vote at each shareholders' meeting or any adjournment thereof, arranged in alphabetical order, with the address of and number of shares held by each, shall be prepared by the Secretary and kept on file at the registered office of the Corporation and subject to inspection by any shareholder during usual business hours for a period of at least ten (10) days prior to such meeting and shall be produced and kept open at such meeting and at all times during such meeting shall be subject to inspection by any shareholder.

Section 13. Record Date. The Board of Directors shall have the power to close the stock transfer book of the Corporation or, in lieu thereof, to fix a record date for the determination of the shareholders entitled to notice of or to vote at any meeting of the shareholders and at any adjournment or adjournments thereof and to fix a record date for any other purpose or purposes as provided in Section 6 of Article VIII of these Bylaws.

ARTICLE III

BOARD OF DIRECTORS

Section 1. Board of Directors. The business, property and affairs of the Corporation shall be managed and controlled by the Board of Directors and, subject to such restrictions, if any, as may be imposed by law, the Certificate of Incorporation or by these Bylaws, the Board of Directors may, and are fully authorized to, exercise all the powers of the Corporation. Directors need not be residents of the State of Colorado or shareholders of the Corporation.

In addition to the powers and authority expressly conferred upon the Board of Directors by law, the Certificate of Incorporation or amendment thereof, by these Bylaws or any amendment thereof, the Board may exercise all the powers of the Corporation and do all such lawful acts and things as may be done by the Corporation which are not by the laws of the State of Colorado or by the Certificate of Incorporation or by these Bylaws directed or required to be exercised or done by the shareholders.

Section 2. Number, Tenure and Qualifications. The number of directors of the corporation shall be fixed from time to time by the board of directors, provided that the number of directors shall not be more than nine nor less than two. No decrease in the number of directors shall have the effect of shortening the terms of any incumbent director. Directors shall be elected at each annual meeting of shareholders. Each director shall hold office until the next annual meeting of shareholders and thereafter until his successor shall have been elected and qualified. Directors need not be residents of Colorado or shareholders of the corporation. Directors shall be removable in the manner provided by the statutes of Colorado.

Section 3. Resignation. Any director or officer of the Corporation may resign at any time as provided in Section 4 of Article IX of these Bylaws.

Section 4. Vacancy and Increase. Any vacancy or vacancies occurring in the Board of Directors may be filled by the affirmative vote of a majority of the remaining directors though less than a quorum of the Board of Directors. A director elected to fill a vacancy shall be elected for the unexpired term of his predecessor in office and until his successor shall have been elected and qualified. In case of any increase in the number of directors, the additional director or directors shall be elected at either an annual meeting or at a special meeting of the shareholders called for that purpose.

Section 5. Removal. The directors of the Corporation, and each of them, may be removed from office from time to time and at any time with or without cause, by the shareholders entitled

to vote, at any meeting thereof at which a quorum is present, by the vote of a majority of the votes of the shareholders present in person or by proxy and entitled to vote thereon; and any vacancy or vacancies in the Board resulting therefrom may be filled by the remaining directors, though less than a quorum, or by the shareholders, whichever shall first act thereon.

Section 6. Offices and Records. The directors may have or establish one or more offices of the Corporation and keep the books and records of the Corporation, except as otherwise provided by statute, in such place or places in the State of Colorado or outside the State of Colorado, as the Board of Directors may from time to time determine.

Section 7. Meeting of Directors. Meetings of the Board of Directors, regular or special, may be held either within or without the State of Colorado.

Section 8. First Meeting. Each newly elected Board of Directors may hold its first meeting for the purpose of organization and the transaction of business, if a quorum is present, immediately after and at the same place as the annual meeting of the stockholders, and no notice of such meeting shall be necessary.

Section 9. Election of Officers. At the first meeting of the Board of Directors in each year at which a quorum shall be present, held next after the annual meeting of shareholders, the Board of Directors shall proceed to the election of the officers of the Corporation.

Section 10. Regular Meetings. Regular meetings of the Board of Directors shall be held at such times and places as shall be designated or determined from time to time by resolution of the Board of Directors. Notice of such regular meetings shall not be required.

Section 11. Special Meetings. Special meetings of the Board of Directors shall be held whenever and wherever called or provided to be held by the President or by any two of the directors for the time being in office, and at the place, day and hour determined by the officer or the two directors calling or providing for the holding of the particular meeting, in each instance, and such determination may be conclusively evidenced in a call, waiver of notice or other communication signed by such officer or such two directors.

Section 12. Notice. The Secretary or an Assistant Secretary shall, but in the event of the absence of the Secretary or an Assistant Secretary or the failure, inability, refusal or omission on the part of the Secretary or an Assistant Secretary so to do, any other officer of the Corporation may, give notice of each special meeting, and of the place, day and hour of the particular meeting, in person or by mail, or by telephone, telegraph or other means of communication, at least three days before the meeting to each director. The attendance of a director at any meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

Section 13. Business to be Transacted. Neither the business to be transacted at, nor the purpose or purposes of, any regular or special meeting of the Board of Directors need be specified in the notice or any waiver or waivers of notice of such meeting. Any and all business of any nature or character whatsoever may be transacted and action may be taken thereon at any such first meeting or at any other meeting, regular or special, of the Board of Directors. At any meeting at which every director shall be present, even though without any notice, any business may be transacted.

Section 14. Quorum - Adjournment if Quorum is not Present. A majority of the number of directors fixed by these Bylaws shall constitute a quorum for the transaction of any and all

business, but if at any meeting, regular or special, or any first meeting of the Board of Directors, there be less than a quorum present, a majority of those present, or if only one director be present, then such director, may adjourn the meeting from time to time without notice, other than by announcement at the meeting, until a quorum shall be present at the meeting. A majority of the directors present at any meeting of the Board of Directors, or if only one director be present, then such director may adjourn any meeting of the Board from time to time without notice, other than by announcement at such meeting of the time and place at which the meeting will reconvene, until the transaction of any and all business submitted or proposed to be submitted to such meeting or any adjournment or adjournments thereof shall have been completed. The act of a majority of the directors present at any meeting of the Board of Directors at which a quorum is in attendance shall constitute the act of the Board of Directors unless the act of a greater number is required by the Certificate of Incorporation or by these Bylaws.

Section 15. Order of Business. At all meetings of the Board of Directors business shall be transacted in such order as from time to time the Board of Directors may determine. At all meetings of the Board of Directors the President shall preside and in the absence of the President, a Vice President shall preside, but if neither the President nor a Vice President shall be present or if neither shall for any reason preside at any meeting of the Board, then a Chairman shall be chosen by the Board from among the directors present and such Chairman so chosen shall preside at the meeting.

The Secretary of the Corporation, or in his absence, an Assistant Secretary, shall act as Secretary of the meetings of the Board of Directors, but in the absence of the Secretary and an Assistant Secretary, or if for any reason neither acts as Secretary thereof, the presiding officer shall appoint any person of his choice to act, and such person shall act as Secretary of the meeting.

Section 16. Presumption of Assent. A director of the Corporation who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as the Secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

Section 17. Compensation. Directors, as such, shall not be entitled to receive any fixed sums or stated salaries for their services, but, by resolution of the Board, a fixed sum and expenses of attendance, if any, may be provided and allowed by the Board for attendance at meetings of the Board, whether regular or special, or first meetings; provided that nothing herein contained shall, or shall be construed so as to, preclude any director from serving the Corporation in any other capacity or receiving compensation therefor. Members of special or standing committees may be allowed a fixed sum and expenses of attendance, if any, at committee meetings.

Section 18. Advisory Board. The Board of Directors shall have the authority to create an Advisory Board and to appoint individuals to serve on the Advisory Board. The Board of Directors shall retain all control over its management functions and the Advisory Board shall serve the Board of Directors by making recommendations and/or giving advice to the Board of Directors. Any advice rendered by the Advisory Board or the individual members thereof is simply advice, and neither the Advisory Board nor its individual members may be held accountable for any actions of the Board of Directors or the Corporation relating to that advice. The members of the Advisory Board shall not be liable to the Corporation, the Corporation's shareholders, or any third party for any claims arising out of the activities of the Corporation.

ARTICLE IV

OFFICERS' AND DIRECTORS' SERVICES, CONFLICTING INTERESTS AND INDEMNIFICATION

Section 1. Services. No director and, unless otherwise determined by the Board of Directors, no officer of this Corporation shall be required to devote his time or any particular portion of his time or render services or any particular services exclusively to this Corporation. Each and every director and, unless otherwise determined by the Board of Directors, each and every officer of this Corporation shall be entirely free to engage, participate and invest in any and all such businesses, enterprises and activities, either similar or dissimilar to the business, enterprise and activities of this Corporation, without breach of duty to this Corporation or to its shareholders and without accountability or liability to this Corporation or to its shareholders in any event or under any circumstances or conditions.

Each and every director and, unless otherwise determined by the Board of Directors, each and every officer of this Corporation shall, respectively, be entirely free to act for, serve and represent any other corporation or corporations, entity or entities, and any person or persons, in any capacity or capacities, and be or become a director or officer, or both, of any other corporation or corporations, entity or entities, irrespective of whether or not the business, purposes, enterprises and activities, or any of them, thereof be similar or dissimilar to the business, purposes, enterprises and activities, or any of them, of this Corporation, without breach of duty to this Corporation or to its shareholders and without accountability of liability of any character or description to this Corporation or to its shareholders in any event or under any circumstances or conditions.

Section 2. Directors' and Officers' Interest in Contracts. No contract or other transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any firm or partnership of which one or more of its directors or officers are members or employees or in which they are otherwise interested, or between the Corporation and any corporation or association or other entity in which one or more of this Corporation's directors or officers are shareholders, members, directors, officers or employees or in which they are otherwise interested, shall be void or voidable by reason of or as a result of such connection with or holding an office or offices as a director or officer or as directors or officers of this Corporation or such interest in or in connection with such other firm, partnership, corporation, association, or other entity, notwithstanding the presence of such director or directors, officer or officers, at the meeting of the Board of Directors of this Corporation which acts upon or in reference to any such contract or other transaction, and notwithstanding his or their participation in such action, if (i) the fact of such interest shall be disclosed or known to the Board of Directors and the Board of Directors shall authorize, approve or ratify such contract or other transaction by a vote of a majority of the directors present, such interested director or directors to be counted in calculating the majority necessary to carry such vote, or if (ii) the fact of such interest shall be disclosed or known to the shareholders and the shareholders either by written consent or by vote of holders of record of a majority of all the outstanding shares of stock entitled to vote, shall authorize, approve or ratify such contract or other transaction; nor shall any director or officer be responsible to, or liable to account to, this Corporation for any profits realized by or from or through any such contract or other transaction of the Corporation so authorized, ratified or approved, by reason of such interest or his being or having been a director or officer, or both, of this Corporation. Nothing herein contained shall create responsibility or liability in or in connection with any such event or events or prevent the authorization, ratification or approval of such contracts or other transactions in any other manner permitted by law or by statute. This section shall not be construed to invalidate any contract or other transaction which would otherwise be valid under the common or statutory law applicable thereto.

Section 3. Non-Liability of Directors and Officers in Certain Cases. No director or officer or member of the Executive Committee shall be liable for his acts as such if he is excused from liability under any present or future provision or provisions of the Colorado Business Corporation Act; and, in addition, to the fullest extent now or hereafter permitted by the Colorado Business Corporation Act, each officer or director or member of the Executive Committee shall in the discharge of any duty imposed or power conferred upon him by the Corporation, be fully protected, if in the exercise of ordinary care, he acted in good faith and in reliance upon the written opinion of an attorney for the Corporation, the books of account or reports made to the Corporation by any of its officials or by an independent certified public accountant or by an appraiser selected with reasonable care by the Board of Directors or by such Committee, or in reliance upon other records of the Corporation.

Section 4. Indemnification of Directors and Officers. Each director and each officer or former director or officer of this Corporation and each person who may have served at its request as a director or officer of another corporation in which it owned shares of capital stock or of which it is a creditor, shall be and hereby is indemnified by the Corporation against liabilities imposed upon him and expenses actually and reasonably incurred by him in connection with any claim made against him, or the defense of any action, suit or proceeding to or in which he may be or be made a party by reason of his being or having been such director or officer, and against such sums as independent counsel selected by the Board of Directors shall deem reasonable payment made in settlement of any such claim, action, suit or proceeding primarily with a view of avoiding expenses of litigation; provided, however, that no director or officer shall be indemnified with respect to matters as to which he shall be adjudged in such action, suit or proceeding to be liable for negligence or misconduct in performance of duty, or with respect to any matters which shall be settled by the payment of sums which counsel selected by the Board of Directors shall not deem reasonable payment made primarily with a view to avoiding expenses of litigation, or with respect to matters for which such indemnification would be against public policy. Such right of indemnification shall be in addition to, but shall not exclude, any other rights to which directors or officers may be entitled.

ARTICLE V

EXECUTIVE COMMITTEE

The Board of Directors, by resolution or resolutions adopted by a majority of the number of directors fixed by these Bylaws, may designate two or more directors to constitute an Executive Committee, and in like manner may discontinue such Executive Committee. The members of such Executive Committee shall, respectively, hold office only during the pleasure of the Board of Directors. Such Executive Committee, to the extent provided in such resolution or resolutions, shall have and may exercise all of the authority of the Board of Directors in the business and affairs of the Corporation during intervals between meetings of the Board of Directors except where action of the Board of Directors is specified by the Colorado Business Corporation Act or other applicable law and may authorize the seal of the Corporation to be affixed to all instruments, papers and documents which may require it; except that the Executive Committee shall have no power (a) to elect directors, (b) to alter, amend or repeal these Bylaws or any resolution or resolutions of the Board of Directors designating an Executive Committee, (c) to declare any dividend or make any other distribution to the shareholders of the Corporation, or (d) to appoint or replace any member of the Executive Committee. Regular meetings of the Executive Committee shall be held at such time and place as the Committee may determine, and special meetings may be called at any time by an officer of the Corporation or by any member of the Committee. No notice of any meeting of the Executive Committee shall be required, and a majority of the members of the Committee shall constitute a quorum for the transaction of business. Minutes of all such meetings shall be kept and presented to the Board of Directors upon request. The designation of such Executive

Committee and the delegation thereto of authority shall not operate to relieve the Board of Directors, or any member thereof, of any responsibility imposed upon it or him by law.

ARTICLE VI

OFFICERS

Section 1. Principal Officers. The officers of the Corporation shall be chosen by the Board of Directors. The officers shall be a President, a Secretary, a Treasurer, and such number of Vice Presidents, and such number of Assistant Secretaries and Assistant Treasurer, as the Board may from time to time determine or elect. Any person may hold two or more offices at the same time, except that the President and Secretary shall not be the same person.

Section 2. Additional Officers. The Board may appoint such other officers, agents and factors as it shall deem necessary.

Section 3. Terms of Officers. Each officer shall hold his office until his successor shall have been duly elected and qualified or until his death or until he shall resign or shall have been removed in the manner hereinafter provided.

Section 4. Removal. Any officer or agent or member of the Executive Committee elected or appointed by the Board of Directors may be removed by the Board of Directors whenever in its judgment the best interests of the Corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights.

Section 5. Vacancies. A vacancy in the office of any officer may be filled by the vote of a majority of the directors then in office for the unexpired portion of the term for the person with respect to which a vacancy has occurred, in each instance.

Section 6. Powers and Duties of Officers. The officers so chosen shall perform the duties and exercise the powers expressly conferred or provided for in these Bylaws, as well as the usual duties and powers incident to such office, respectively, and such other duties and powers as may be assigned to them from time to time by the Board of Directors or by the President.

Section 7. Chairman of the Board. The Board of Directors may select from among its members a Chairman of the Board who may, if so selected, preside at all meetings of the Board of Directors and approve the minutes of all proceedings, there at, and he shall be available to consult with and advise the officers of the Corporation with respect to the conduct of the business and affairs of the Corporation.

Section 8. The President. The President, subject to the control of the Board of Directors, shall be the chief executive officer of the Corporation and shall have general executive charge, management and control of the affairs, properties and operations of the Corporation in the ordinary course of its business, with all such duties, powers and authority with respect to such affairs, properties and operations as may be reasonably incident to such responsibilities; he may appoint or employ and discharge employees and agents of the Corporation and fix their compensation; he may make, execute, acknowledge and deliver any and all contracts, leases, deeds, conveyances, assignments, bills of sale, transfers, releases and receipts, any and all mortgages, deeds of trust, indentures, pledges, chattel mortgages, liens and hypothecations, and any and all bonds, debentures and notes, and any and all other obligations and encumbrances and any and all other instruments, documents and papers of any kind or

character for and on behalf of and in the name of the Corporation, and, with the Secretary or an Assistant Secretary, he may sign all certificates for shares of the capital stock of the Corporation; he shall do and perform such other duties and have such additional authority and powers as from time to time may be assigned to or conferred upon him by the Board of Directors.

Section 9. Vice Presidents. In the absence of the President or in the event of his disability or refusal to act, the Vice President (or in the event there be more than one Vice President, the Vice Presidents in the order designated, or in the absence of any designation, then in the order of their election) shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. Any Vice President shall perform such other duties as from time to time may be assigned to him by the President or by the Board of Directors of the Corporation. Any action taken by a Vice President in the performance of the duties of the President shall be conclusive evidence of the absence or inability to act of the President at the time such action was taken.

Section 10. Treasurer. The Treasurer shall have custody of all the funds and securities of the Corporation which come into his hands. When necessary or proper, he may endorse on behalf of the Corporation, for collection, checks, notes and other obligations and shall deposit the same to the credit of the Corporation in such bank or banks or depositories as shall be selected or designated by or in the manner prescribed by the Board of Directors. He may sign all receipts and vouchers for payments made to the Corporation, either alone or jointly with such officer as may be designated by the Board of Directors. Whenever required by the Board of Directors he shall render a statement of his cash account. He shall enter or cause to be entered, punctually and regularly, on the books of the Corporation to be kept by him or under his supervision or direction for that purpose, full and accurate accounts of all monies received and paid out by, for, or on account of the Corporation. He shall at all reasonable times exhibit his books and accounts and other financial records to any director of the Corporation during business hours. He shall have such other powers and duties as may be conferred upon or assigned to him by the Board of Directors. The Treasurer shall perform all acts incident to the position of Treasurer subject always to the control of the Board of Directors. He shall, if required by the Board of Directors, give such bond for the faithful discharge of his duties in such form and amount as the Board of Directors may require.

Section 11. Assistant Treasurers. Each Assistant Treasurer shall have the usual powers and duties pertaining to his office, together with such other powers and duties as may be conferred upon or assigned to him by the Board of Directors. The Assistant Treasurers shall have and exercise the powers of the Treasurer during that officer's absence or inability to act.

Section 12. Secretary. The Secretary (1) shall keep the minutes of all meetings of the Board of Directors and the minutes of all meetings of the shareholders, in books provided for that purpose, (2) shall attend to the giving and serving of all notices, (3) may sign with the President or a Vice President in the name of the Corporation and/or attest the signature of either to, all contracts, conveyances, transfers, assignments, encumbrances, authorizations and all other instruments, documents and papers, of any and every description whatsoever, of or executed for or on behalf of the Corporation and affix the seal of the Corporation thereto, (4) may sign with the President or a Vice President all certificates and affix the corporate seal of the Corporation thereto, (5) shall have charge of and maintain and keep or supervise and control the maintenance and keeping the stock certificate books, transfer books and stock ledgers and such other books and papers as the Board of Directors may authorize, direct or provide for, all of which shall at all reasonable times be open to the inspection of any director, upon request, at the office of the Corporation during business hours, (6) shall in general perform all the duties incident to the office of Secretary, and (7) shall have such other powers and duties as may be conferred

upon or assigned to him by the Board of Directors; subject always to the control of the Board of Directors.

Section 13. Assistant Secretaries. Each Assistant Secretary shall have the usual powers and duties pertaining to his office, together with such other powers and duties as may be conferred upon or assigned to him by the Board of Directors or the Secretary. The Assistant Secretaries shall have and exercise the powers of the Secretary during that officer's absence or inability to act.

Section 14. Securities of Other Corporations. The President or any Vice President or Secretary or Treasurer of the Corporation shall have power and authority to transfer, endorse for transfer, vote, consent or take any other action with respect to any securities of another issuer which may be held or owned by the Corporation and to make, execute and deliver any waiver proxy or consent with respect to any such securities.

Section 15. Contractual Powers. The President may sign and execute contracts in the name and on behalf of the Corporation when so authorized and directed so to do either generally or in special instances by the Board of Directors; but unless expressly so authorized and directed in each instance by the Board of Directors, he shall not have power in the name and on behalf of the Corporation to enter into any contract or other agreement obligating the Corporation in an amount in excess of Fifty Thousand Dollars (\$50,000.00).

ARTICLE VII

BOOKS, DOCUMENTS AND ACCOUNTS

The Board of Directors shall have power to keep the books, documents and accounts of the Corporation outside of the State of Colorado, except that a record of its shareholders, giving the names and addresses of all shareholders and the number and class of shares held by each shall be kept at its registered office or principal place of business, or at the office of its transfer agent or register and the original or a duplicate stock ledger shall at all times be kept within the State of Colorado.

ARTICLE VIII

CAPITAL STOCK

Section 1. Stock Certificates. The certificates for shares of the capital stock of the Corporation shall be in such form as shall be approved by the Board of Directors. They shall be consecutively numbered and shall be entered in the books of the Corporation as they are issued and shall exhibit the holders name and the number of shares. Every holder of stock in the Corporation shall be entitled to have a certificate signed by, or in the name of the Corporation by the President, or a Vice President, and the Secretary or an Assistant Secretary of the Corporation, certifying the number of shares owned by him in the Corporation, with the seal of the Corporation or a facsimile thereof impressed or printed thereon. Where any such certificate is countersigned by a transfer agent, or registered by a registrar, either of which is other than the Corporation itself or an employee of the Corporation, the signatures of the President or Vice President and the Secretary or Assistant Secretary upon a certificate may be facsimiles, engraved or printed. In case any officer or officers who shall have signed, or whose facsimile signature or signatures shall have been used or placed on any such certificate or certificates shall have ceased to be such officer or officers of the Corporation, whether because of death, resignation or otherwise, before such certificate is, or such certificates are, issued, such certificate or certificates may nevertheless be issued and delivered by the Corporation as though the person or persons who signed such certificate or certificates or whose facsimile signature or signatures have been used thereon was or were

such officer or officers at the time of issuance thereof, and with the same effect as if he or they were such officer or officers at the date of issuance thereof.

Section 2. Transfers. Stock of the Corporation shall be transferable in the manner prescribed by the laws of the State of Colorado and in these Bylaws. Transfers of stock shall be made on the books of the Corporation only by the person named in the certificate, or by his attorney or attorneys-in-fact, legal representative or legal representatives, duly and lawfully authorized in writing, and upon the surrender of the certificate therefor, which shall be cancelled before the new certificate, or certificates in the aggregate, for a like number of shares shall be issued.

Section 3. Registered Holders. The Corporation shall be entitled to treat the person in whose name any share of stock or any warrant, right or option is registered as the owner thereof for all purposes and shall not be bound to recognize any equitable or other claim to, or interest in, such share, warrant, right or option on the part of any other person, whether or not the Corporation shall have notice thereof, save as may be expressly provided otherwise by the laws of the State of Colorado.

Section 4. New Certificates. The Corporation may, in its sole discretion, issue a new certificate for shares of its stock in the place of any certificate theretofore issued by it, alleged to have been lost or destroyed, and the Board of Directors may, in its discretion, require the owner of the lost or destroyed certificate, or his legal representative or representatives, to give the Corporation such statement under oath or other evidence of such loss and destruction as the Board may desire, and a bond in form, amount and with such surety or sureties as the Board of Directors may prescribe or determine, and sufficient, in the sole judgment of the Board, to indemnify and protect the Corporation against any and all claims, liabilities, costs and expenses that may be made or asserted against it or which it may suffer or incur or pay, on account of the alleged loss of any such certificate or the issuance of such new certificate. A new certificate may be issued without requiring any bond when, in the sole discretion of the Board, it is proper so to do.

Section 5. Dividends. The Board of Directors may declare dividends as and when the Board deems expedient and as may be permitted by law and under the provisions of the Colorado Business Corporation Act. Before declaring any dividend there may be reserved out of the earned surplus such sum or sums as the Board of Directors, from time to time in the absolute discretion of the directors, deems proper for working capital or as a reserve fund to meet contingencies or for equalizing dividends, or for such other purposes as the Board may deem conducive to the interests of the Corporation, and the Board may abolish any such reserve in the manner in which it was created.

Section 6. Record Dates and Closing of Transfer Books. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders, or any adjournment thereof, or entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors of the Corporation may provide that the stock transfer books shall be closed for a stated period but not to exceed, in any case, fifty days. If the stock transfer books shall be closed for the purpose of determining shareholders entitled to notice of or to vote at a meeting of shareholders, such books shall be closed for at least ten days immediately preceding such meeting. In lieu of closing the stock transfer books of the Board of Directors may fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not more than fifty days and, in case of a meeting of shareholders, not less than ten days prior to the date on which the particular action requiring such determination of shareholders is to be taken. If the stock transfer books are not closed and no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive payment of a dividend, the date on which the notice of the meeting is mailed or the date on which the notice of the meeting is mailed or

the date on which the resolution of the Board of Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of shareholders.

Section 7. Regulations. The Board of Directors shall have power and authority to make all such rules and regulations as they may deem expedient concerning the issue, transfer and registration or the replacement of certificates for shares of the capital stock of the Corporation.

ARTICLE IX

MISCELLANEOUS PROVISIONS

Section 1. Fiscal Year. The fiscal year of the Corporation shall be such as the Board of Directors shall, by resolution, provide or establish or such as the President shall determine subject to approval of the Board.

Section 2. Seal. The seal of the Corporation shall be in such form as the Board of Directors shall prescribe, and may be used by causing it or a facsimile thereof to be impressed, or affixed, or printed, or reproduced or in any other manner.

Section 3. Notice and Waiver of Notice. Whenever any notice whatever is required to be given to any shareholder or director under the provisions of the Colorado Business Corporation Act or under the provisions of these Bylaws or the Certificate of Incorporation of this Corporation, said notice shall be deemed to be sufficient if given by depositing the same in a post office box in a sealed postpaid wrapper addressed to the person or persons entitled thereto at their post office addresses, respectively, as same appear on the books or other records of the Corporation, and such notice shall be deemed to have been given on the day of such mailing, but said notice shall also be deemed to be sufficient and to have been given and received if given in any other manner or by any other means authorized or provided for elsewhere in these Bylaws. A waiver or waivers of notice signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be equivalent to the giving of such notice.

Section 4. Resignations. Any director or officer may resign at any time. Each such resignation shall be made in writing and shall take effect at the time specified therein, or, if no time be specified, at the time of its receipt by either the Board of Directors or the President or the Secretary. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation.

Section 5. Securities of Other Corporations. The President or any Vice President of the Corporation shall have power and authority to transfer, endorse for transfer, vote, consent or take any other action with respect to any securities of any issuer which may be held or owned by the Corporation and to make, execute and deliver any waiver, proxy or consent with respect to any such securities.

Section 6. Depositories. Funds of the Corporation not otherwise employed shall be deposited from time to time in such banks or other depositories as either the Board of Directors of the President or the Treasurer may select or approve.

Section 7. Signing of Checks, Notes, etc. In addition to and cumulative of, but in no way limiting or restricting any other provision or provisions of these Bylaws which confer any authority relative thereto, all checks, drafts and other orders for the payment of money or monies out of funds of the Corporation and all notes and other evidences or indebtedness of the Corporation shall be signed on behalf of the Corporation, in such manner, and by such officer or officers, person or persons, as shall from time to time be determined or designated by or pursuant to resolution or resolutions of the

Board of Directors; provided, however, that if, when, after and as authorized or provided for by resolution or resolutions of the Board of Directors, the signature or signatures of any such officer or officers, person or persons, may be facsimile or facsimiles, engraved or printed, and shall have the same force and effect and bind the Corporation as though such officer or officers, person or persons, had signed the same personally, and, in event of the death, disability, removal or resignation of any such officer or officers, person or persons, if the Board of Directors shall so determine or provide, as though and with the same effect as if such death, disability, removal or resignation had not occurred.

Section 8. Persons. Wherever used or appearing in these Bylaws, pronouns of the masculine gender shall include the persons of the female sex as well as the neuter gender and the singular shall include the plural wherever appropriate.

Section 9. Laws and Statutes. Wherever used or appearing in these Bylaws, the words "law" or "laws" or "statute" or "statutes", respectively, shall mean and refer to laws and statutes, or a law or a statute, of the State of Colorado, to the extent only that such is or are expressly applicable, except where otherwise expressly stated or the context requires that such words not be so limited.

Section 10. Headings. The headings of the Articles and Sections of these Bylaws are inserted for convenience of reference only and shall not be deemed to be a part thereof or used in the construction or interpretation thereof.

ARTICLE X

RESTRICTIONS ON TRANSFERABILITY AND RIGHTS OF REPURCHASE OF SHARES OF COMMON STOCK

No shares of the common stock of the Corporation (in this Article X referred to as "Stock"), or any interest in Stock, shall be transferable or sold or otherwise disposed of, except as provided by the Certificate of Incorporation.

ARTICLE XI

AMENDMENTS

These Bylaws may, from time to time, be added to, changed, altered, amended or repealed or new Bylaws may be made or adopted,

- (a) by the affirmative vote of the holders of at least a majority of the outstanding stock of this Corporation, at any annual or special meeting of the shareholders, or
- (b) by the affirmative vote of at least a majority of the Directors present at any annual or regular or special meeting of the Board of Directors, provided that the power to add to, change, alter, amend or repeal these Bylaws or to adopt new Bylaws is delegated to the Board of Directors by the shareholders.

* * * * *

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FORM 10-Q

TWO RIVERS WATER Co - TURV

Filed: August 11, 2011 (period: June 30, 2011)

Quarterly report which provides a continuing view of a company's financial position

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

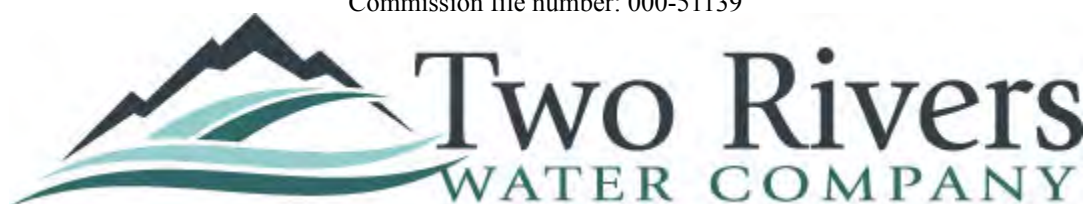
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2011

Or

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number: 000-51139



TWO RIVERS WATER COMPANY

(Exact name of registrant as specified in its charter)

Colorado

State or other jurisdiction
of incorporation or
organization

13-4228144

I.R.S. Employer
Identification No.

2000 South Colorado Boulevard, Annex Ste 420, Denver, CO 80222
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code:
(303)222-1000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
registered
Not Applicable

Name of each exchange on
which registered
Not Applicable

Securities registered pursuant to Section 12(g) of the Act:
Common Stock
(Title of class)

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 [X] 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 [X] No []

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One).

Large accelerated filer

[]

Accelerated filer

[]

Non-accelerated filer ☐
(Do not check if a smaller reporting company)

Smaller reporting company ☒

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of August 1, 2011 there were 22,650,114 shares outstanding of the registrant's Common Stock.

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TWO RIVERS WATER COMPANY AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (In Thousands)

| | June 30, 2011 Unaudited | December 31, 2010 |
|--|----------------------------|----------------------|
| ASSETS: | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 383 | \$ 645 |
| Accrued interest receivable | 1 | 3 |
| Advances and accounts receivable | 70 | 38 |
| Farm product (Note 2) | 135 | - |
| Deposits | 41 | - |
| Prepaid expenses | 161 | 13 |
| Total Current Assets | 791 | 699 |
| Property, equipment and software, net | 956 | 156 |
| Other Assets | | |
| Prepaid Cost Offering | 195 | - |
| Land (Note 2) | 1,615 | 1,279 |
| Water rights and infrastructure (Note 2) | 27,216 | 24,216 |
| Options on real estate and water shares (Note 2) | - | 100 |
| Dam construction (Note 2) | 521 | 489 |
| Discontinued operations - assets held for sale (Notes 2, 6) | 103 | 259 |
| Total Other Assets | 29,650 | 26,343 |
| TOTAL ASSETS | \$ 31,397 | \$ 27,198 |
| LIABILITIES & STOCKHOLDERS' EQUITY: | | |
| Current Liabilities: | | |
| Accounts payable | \$ 436 | \$ 463 |
| Current portion of notes payable (Note 3) | 63 | - |
| Accrued liabilities | 268 | 114 |
| Total Current Liabilities | 767 | 577 |
| Notes Payable - Long Term (Note 3) | 12,358 | 9,128 |
| Total Liabilities | 13,125 | 9,705 |
| Stockholders' Equity: | | |
| Common stock, \$0.001 par value, 100,000,000 shares authorized, 22,325,114 and 19,782,916 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively | 22 | 20 |
| Additional paid-in capital | 33,155 | 28,949 |
| Accumulated (deficit) | (17,040) | (13,587) |
| Total Two Rivers Water Company Shareholders' Equity | 16,137 | 15,382 |
| Noncontrolling interest in subsidiary (Note 2) | 2,135 | 2,111 |
| Total Stockholders' Equity | 18,272 | 17,493 |
| TOTAL LIABILITIES & STOCKHOLDERS' EQUITY | \$ 31,397 | \$ 27,198 |

The accompanying notes to condensed consolidated financial statements are an integral part of these statements.

TWO RIVERS WATER COMPANY AND SUBSIDIARIES
Condensed Consolidated Statements of Operations (In Thousands)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | June 30, 2011 | June 30, 2010 | June 30, 2011 | June 30, 2010 |
| Revenue | | | | |
| Member assessments | \$ 48 | \$ 35 | \$ 48 | \$ 53 |
| Operating Expenses: | | | | |
| General and administrative | 1,773 | 957 | 2,836 | 1,675 |
| Depreciation and amortization | 35 | 8 | 49 | 13 |
| Total operating expenses | 1,808 | 965 | 2,885 | 1,688 |
| (Loss) from operations | (1,760) | (930) | (2,837) | (1,635) |
| Other income (expense) | | | | |
| Net interest expense | (215) | (115) | (383) | (133) |
| Gain (Loss) on extinguishment of notes payable | - | - | (188) | - |
| Other income (expense) | 1 | (39) | 8 | (88) |
| Total other income (expense) | (214) | (154) | (563) | (221) |
| Net (Loss) from continuing operations before taxes | (1,974) | (1,084) | (3,400) | (1,856) |
| Income tax (provision) benefit | - | - | - | - |
| Net (Loss) from continuing operations | (1,974) | (1,084) | (3,400) | (1,856) |
| Discontinued Operations (Note 10) | | | | |
| Loss from operations of discontinued real estate and mortgage business | (9) | (363) | (31) | (525) |
| Income tax (provision) benefit | - | - | - | - |
| (Loss) on discontinued operations | (9) | (363) | (31) | (525) |
| Net (Loss) | (1,983) | (1,447) | (3,431) | (2,381) |
| Net loss (income) attributable to the noncontrolling interest (Note 2) | (24) | 200 | (24) | 273 |
| Net (Loss) attributable to Two Rivers Water Company | \$ (2,007) | \$ (1,247) | \$ (3,455) | \$ (2,108) |
| (Loss) Per Share - Basic and Dilutive: | | | | |
| (Loss) from continuing operations | (0.09) | (0.10) | (0.16) | (0.17) |
| (Loss) from discontinued operations | - | (0.03) | - | (0.05) |
| Total | \$ (0.09) | \$ (0.13) | \$ (0.16) | \$ (0.22) |
| Weighted Average Shares Outstanding: | | | | |
| Basic and Dilutive | 22,054 | 11,267 | 21,054 | 10,700 |

The accompanying notes to condensed consolidated financial statements are an integral part of these statements.

TWO RIVERS WATER COMPANY AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (In Thousands)

| | For the six months ended June 30, | |
|---|-----------------------------------|----------------|
| | 2011 | 2010 |
| Cash Flows from Operating Activities: | | |
| Net (Loss) | \$ (3,431) | \$ (2,381) |
| Adjustments to reconcile net income or (loss) to net cash (used in) operating activities: | | |
| Depreciation (including discontinued operations) | 27 | 32 |
| Amortization of debt issuance costs and pre-pays | 114 | - |
| Legendary Investment sale and write off | - | 49 |
| Increase in reserves and impairments | - | 337 |
| Recapture of impairments from REOs sold | - | (75) |
| Loss from REOs sold (discontinued operations) | - | (17) |
| (Gain) Loss on sale of investments and assets held | 27 | (40) |
| Noncontrolling interest in loss | - | 273 |
| Loss on extinguishment of notes payables | 188 | - |
| Stock based compensation and warrant expense | 1,456 | 630 |
| Stock for Services | 367 | - |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in deposits, prepaid expenses and other assets | (177) | 13 |
| Farm product | (135) | (113) |
| (Increase) in accounts receivable | (32) | (53) |
| Decrease in income tax receivable | - | 62 |
| Decrease in L/T Mortgage | 129 | - |
| (Decrease) increase in accounts payable | (27) | 257 |
| Increase in accrued liabilities and other | 156 | (6) |
| Net Cash (Used in) Operating Activities | (1,338) | (1,032) |
| Cash Flows from Investing Activities: | | |
| Investments (increased)/decreased | | |
| Boston real estate and other residential real estate | - | (269) |
| Proceeds from REO properties and other assets sold | - | 498 |
| Proceeds from asset held for sale | - | 176 |
| Proceeds from fixed assets sold | - | 13 |
| Purchase of property, equipment and software | (707) | (128) |
| Purchase of land, water shares, infrastructure | (336) | (5,939) |
| Dam construction | (32) | (273) |
| Net Cash Provided by/(Used in) Investing Activities | (1,075) | (5,922) |

Continued on next page

Continued from previous page

Cash Flows from Financing Activities:

| | | | | |
|--|-----------|--------------|-----------|--------------|
| Proceeds from issuance of convertible notes | \$ | 2,000 | \$ | - |
| Payment of offering costs | | (219) | | - |
| Proceeds from financing | | - | | - |
| Payment on convertible notes | | (38) | | - |
| Payment on Note Payable | | (100) | | - |
| Payment for settlement of note payable | | (105) | | - |
| Options and warrants exercised | | 613 | | - |
| Increase in long term borrowings | | - | | 4,944 |
| Retirement of Common Stock | | - | | (6) |
| Private placement - net of offering costs | | - | | 1,620 |
| Net Cash Provided by Financing Activities | | 2,151 | | 6,558 |
| Net Increase in Cash & Cash Equivalents | | (262) | | (396) |
| Beginning Cash & Cash Equivalents | | 645 | | 616 |
| Ending Cash & Cash Equivalents | \$ | 383 | \$ | 220 |

Supplemental Disclosure of Cash Flow Information

| | | | | |
|---|----|-------|----|-------|
| Non-controlling interest | \$ | 24 | \$ | (345) |
| Cash paid for Interest | \$ | 242 | \$ | 78 |
| Cash received from Income tax refunds | \$ | - | \$ | 61 |
| Conversion of note receivable for loan on land | \$ | - | \$ | 295 |
| Common stock issued for land and water share purchase | \$ | - | \$ | 500 |
| Increase in Water Shares due to acquisition costs | \$ | - | \$ | 174 |
| Increase in note receivable from sale of Legendary Investment | \$ | - | \$ | 9 |
| Common stock issued in conjunction with extinguishment of notes payable | \$ | 1,500 | \$ | - |
| Acquisition of Orlando Reservoir for Seller financed note payable | \$ | 3,000 | \$ | - |
| Equipment purchases financed | \$ | 120 | \$ | - |

The accompanying notes to condensed consolidated financial statements are an integral part of these statements.

TWO RIVERS WATER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Six Months Ended June 30, 2011 and June 30, 2010
(Unaudited)

NOTE 1 – ORGANIZATION AND BUSINESS

GENERAL

The following is a summary of some of the information contained in this document. Unless the context requires otherwise, references in this document to “Two Rivers Water Company,” “Two Rivers,” or the “Company” is to Two Rivers Water Company and its subsidiaries. The “Farming Business” refers to Two Rivers’ development and operating of irrigated farmlands. The “Water Business” refers to Two Rivers’ acquisition of water rights, the improvement of water storage and distribution assets and the use of water rights in farming and other markets.

Two Rivers was incorporated in December 2002 in the state of Colorado. The Company was formerly known as Navidec Financial Services, Inc. until it changed its name on November 19, 2009 to Two Rivers Water Company. The Company’s operations are centered in Colorado.

Two Rivers maintains a website at www.2riverswater.com, which is not incorporated in, and is not a part of, this report.

Two Rivers currently operates irrigated farming operations along with a water acquisition, development and distribution business in southern Colorado. Detailed information on Two Rivers’ Business and organization is available in the Company’s 2010 10K filing.

On January 28, 2011, Two Rivers through a wholly-owned subsidiary, TRW Orlando Water Assets, LLC, purchased the Orlando Reservoir (“Orlando”) containing 3,110 acre feet of storage and 9 cubic feet per second (cfs) of direct flow water rights for \$3,100,000.

In the six months ended June 30, 2011, Two Rivers completed a \$2,000,000 convertible debt offering to fund the development of farmland, water assets and other related assets held in Two Rivers Farms F-1, LLC (“F-1”), a wholly owned subsidiary.

On April 5, 2011, the Company formed Two Rivers Farms F-2, LLC (“F-2”) to acquire and dedicate 1,500 acres of farmland and associated water rights to grow organic alfalfa and hay. F-2 farmland will be prepared and planted in the fall of 2011 to begin production in 2012. In June, 2011, the Company offered \$6,000,000 through a convertible debt offering in order to fund the transfer and purchase of farming land, water shares, irrigation, and land preparation for the 1,500 acres. On July 22, 2011, the Company closed on \$3,355,000 of this offering.

SUBSIDIARIES

Two Rivers is the parent company and owns 100% of HCIC Holdings LLC (“HCIC”), Two Rivers Water LLC, and Two Rivers Farms LLC. HCIC owns 91% of the Mutual Ditch Company as of June 30, 2011. Two Rivers Farms, LLC owns 100% of Two Rivers Farms F-1, LLC and Two Rivers Farms F-2, LLC.

Two Rivers Water Company June 30, 2011 10Q

HCIC HOLDINGS, LLC

On August 17, 2009, Two Rivers, and Two Rivers Basin, LLC an unrelated Colorado limited liability company (“TRB”), formed HCIC, a joint venture.

On September 14, 2010, the Company obtained 100% ownership of HCIC. The owners of TRB were issued 7,500,000 shares of the Company’s common stock in exchange for 100% of their ownership in HCIC. This transaction was booked at fair value and substantiated by an independent third party appraisal as of March 2, 2010 and updated as of September 30, 2010.

HUERFANO-CUCHARAS IRRIGATION COMPANY

Huerfano-Cucharas Irrigation Company (“Mutual Ditch Company”); a Colorado Mutual Ditch Company is located in Huerfano and Pueblo counties in the State of Colorado. The Mutual Ditch Company owns water rights, water storage and distribution systems in Huerfano and Pueblo counties. As of June 30, 2011 and December 31, 2010, HCIC owned 91% of Mutual Ditch Company.

TWO RIVERS FARMS, LLC

The Company formed Two Rivers Farms, LLC (“Farms”) to reintroduce agriculture activity in Huerfano and Pueblo counties in Colorado. With the planned re-construction of the main reservoir (the Cucharas Reservoir) owned by the Mutual Ditch Company, Farms plans to lease water from the Mutual Ditch Company and other sources to produce agriculture crops.

Two Rivers intends to hold whatever ownership interest it has in the Farming Business within Two Rivers Farms, LLC and the wholly owned subsidiaries of Farms.

During the 2010 growing season, approximately 400 acres of land were farmed. The crops were wheat and feed corn. During the 2011 season, Farms, through a lease with F-1 plans to re-plant 500 acres of land with hay and alfalfa for production in 2012. Farms, through a lease with F-2, plans to prepare 1,500 acres of farmland and plant organic alfalfa for production in 2012.

TWO RIVERS FARMS F-1, LLC

On January 21, 2011 the Company formed Two Rivers Farms F-1, LLC (“F-1” and previously registered with the Colorado Secretary of State as Two Rivers Farms T-1, LLC) to hold certain farming assets and as an entity to acquire debt for the Company’s expansion of the Farm Business. F-1 leases the farm land and farming assets back to Farms as the operator of farming activities.

TWO RIVERS FARMS F-2, LLC

On April 5, 2011 the Company formed Two Rivers Farms F-2, LLC (“F-2”) to hold certain farming assets and as an entity to acquire debt for the Company’s expansion of the Farm Business. F-2 leases the farm land and farming assets back to Farms as the operator of farming activities.

TWO RIVERS WATER, LLC

The Company formed Two Rivers Water, LLC to secure additional water rights, rehabilitate water storage structures and to develop one or more special water districts.

Two Rivers Water Company June 30, 2011 10Q

DISCONTINUED OPERATIONS

Two Rivers is completing the sale or dissolution of its prior business entities including, Legendary Investment Group, LLC (“Legendary”) sold on June 30, 2010; Northsight, Inc. (formerly Navidec Mortgage Holdings, Inc.), and Southie Developments (“Southie”). Together these entities are referred to as “Discontinued Operations.”

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim Financial Information

The interim financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) as promulgated in Item 210 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) have been condensed or omitted pursuant to such SEC rules and regulations. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of financial position as of June 30, 2011, results of operations for the three months and six months ended June 30, 2011 and 2010, and cash flows for the six months ended June 30, 2011 and 2010, as applicable, have been made. The results for these interim periods are not necessarily indicative of the results for the entire year. The accompanying financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company’s Form 10-K.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Two Rivers and its subsidiaries, HCIC, Mutual Ditch Company, Farming, Water, and its Discontinued Operations. All significant inter-company balances and transactions have been eliminated in consolidation.

Non-controlling Interest

Non-controlling interest is recorded for the Mutual Ditch Company that are consolidated but are not wholly owned by the Company.

As of June 30, 2011 and December 31, 2010, respectively, the non-controlling members’ equity in the Mutual Ditch Company was \$2,135,000 and \$2,111,000.

Reclassification

Certain amounts previously reported have been reclassified to conform to current presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ materially from those estimates.

Two Rivers Water Company June 30, 2011 10Q

Concentration of Credit Risk

Financial instruments that potentially subject Two Rivers to significant concentrations of credit risk include cash equivalents, notes receivable and trade accounts receivable. The Company maintains its cash and investment balances in the form of bank demand deposits, money market accounts, commercial papers and short-term notes with financial institutions that management believes to be of high credit quality. Accounts receivable are typically uncollateralized and are derived from transactions with and from customers primarily located in the United States.

As of June 30, 2011, the Company had approximately \$349,000 in an individual bank demand deposit, of which \$250,000 is covered by FDIC insurance. All other bank accounts were under the FDIC insurance limit of \$250,000.

Management reviews accounts receivable periodically and reduces the carrying amount by a valuation allowance that reflects management's best estimate of amounts that may not be collectible. Allowances, if any, for uncollectible accounts receivable are determined based upon information available and historical experience. As of June 30, 2011 there was an allowance of \$144,000 against a long term mortgage balance of \$247,000 and as of December 31, 2010, there was an allowance of \$144,000 against a long term mortgage balance of \$371,000.

No revenues to unaffiliated customers represented 10% or more of the Company's revenue for the three and six months ended June 30, 2011 and 2010, nor the year ended December 31, 2010.

Fair Value of Financial Instruments and Other Assets

The Company records fair value of monetary and nonmonetary instruments in accordance with FASB Accounting Standards Codification ("ASC") ASC 820 Fair Value Measurements and Disclosures. The ASC establishes a framework for measuring fair value, establishes a fair value hierarchy based on inputs used to measure fair value, and expands disclosure about fair value measurements. Adopting this statement has not had an effect on the Company's financial condition, cash flows, or results of operations.

In accordance with ASC 820 (as amended by Accounting Standards Update 2011-04), the financial instruments have been categorized, based on the degree of subjectivity inherent in the valuation technique, into a fair value hierarchy of three levels, as follows:

Level 1. Inputs are unadjusted, quoted prices in active markets for identical instruments at the measurement date (e.g. U.S. Government securities and active exchange traded equity securities).

Level 2. Inputs (other than quoted prices included within Level 1) that are observable for the instrument either directly or indirectly (e.g. certain corporate and municipal bonds and certain preferred stocks). This includes (i) quoted prices for similar instruments in active markets, (ii) quoted prices for identical or similar instruments in markets that are not active, (iii) inputs other than quoted prices that are observable for the instruments, and (iv) inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3. Inputs that are unobservable. Unobservable inputs reflect the reporting entity's subjective evaluation about the assumptions market participants would use in pricing the financial instruments (e.g. certain structured securities and privately held investments).

Two Rivers Water Company June 30, 2011 10Q

The appraisal performed by an engineering company of the Mutual Ditch Company used Level 2 inputs whereby the water rights were valued using comparable prices in markets that are not active. The infrastructure of the Mutual Ditch Company, including water storage, ditches and diversion points, was valued at replacement cost less physical obsolescence and deterioration.

As of June 30, 2011 the Company possesses water rights whose fair value will be measured at least on an annual basis. The Company possesses financial instruments of a short-term nature, such as cash, prepaid expenses, advances receivable, accounts payable accrued liabilities, and advances payable, whose fair value approximates carrying value due to their short maturities.

As of June 30, 2011 and December 31, 2010, the Company has long term debt. The carrying amount of this long term debt approximated fair value based upon the terms and conditions currently available to the Company in comparison to the terms and conditions of the existing debt.

Farm Product

As the growing season progresses, the Company invests in farm inputs. These inputs are capitalized, carried as current assets, and when the crop is sold, recognized as a cost of the crop sold.

Discontinued Operations Assets Held for Sale

The Company carries its notes receivable at cost or loan balance, subject to management's estimate of impairments. The book value of these financial instruments, after adjustment of the impairments, is representative of their fair values. As of June 30, 2011, the Company had a total of \$103,000 invested in a mortgage receivable, net of an allowance for bad debt of \$144,000. On December 31, 2010, the Company had a total of \$227,000 invested in a mortgages receivable, net of an allowance for bad debt of \$144,000.

The Company owns property it acquired through foreclosing proceedings. At December 31, 2010, the property was held for sale. During the six months ended June 30, 2011, this property was sold.

| | June 30, 2011 | Dec 31, 2010 |
|----------------------------------|------------------|--------------|
| Real estate owned | \$ - | 123,000 |
| Allowance for: | | |
| Real Estate owned - depreciation | - | - |
| Real Estate owned - impairments | - | 93,000 |
| Total | \$ - | 30,000 |

Intangibles

Two Rivers recognizes the estimated fair value of water rights acquired by the Company's purchase of stock in the Mutual Ditch Company. This intangible asset will not be amortized because it has an indefinite remaining useful life based on many factors and considerations, including, the historical upward valuation of water rights within Colorado. Once per year, or more often if certain evidence is present that would indicate impairment is possible, Management will assess the value of the water rights held, and in their opinion, if the rights have become impaired, Management will establish an allowance against the water rights.

Options on Land and water shares

Upon purchasing water shares and land, or options thereon, the value is recorded at purchase price. Management evaluates the carrying value, and if the carrying value is in excess of fair market value, will establish an impairment allowance to reflect current fair market value. Currently, there are no impairments on the land and water shares. No amortization or depreciation is taken on the water shares and land, respectively.

Dam construction

The Company has commenced engineering for the reconstruction of the dam owned by the Mutual Ditch Company. These costs are capitalized, added to the cost of the dam, and not amortized or depreciated until the dam reconstruction is completed in accordance with ASC 360 and 835.

Convertible Debt

During the six months ended June 30, 2011, the Company closed on \$2,000,000 in convertible notes. These notes bear interest at 5% plus 1/3 of the crop profit that was financed through the convertible notes. The convertible debt has a conversion feature to convert at each \$2.50 share of debt into one share of the Company's common stock. In accordance with applicable accounting guidance, the Company valued the convertible notes at its carrying value which approximated fair value since at the time of issue there was no beneficial conversion feature with the current price of the Company's stock being less than the conversion price. Further, the convertible option of the note cannot be separated nor valued from the note.

Revenue Recognition

Farm Revenues

Revenues from farming operations are recognized when sold into the market. All direct expenses related to farming operations are capitalized as inventory and recognized as a direct cost of sale upon the sale of the crops.

Water Revenues

The Company recognizes revenues from water leases when the water is consumed and invoiced.

Stock Based Compensation

Beginning January 1, 2006, the Company adopted the provisions of ASC 718, Compensation – Stock Compensation and accounts for stock-based compensation in accordance with ASC 718. Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which generally is the vesting period. The Company elected the modified-prospective method, under which prior periods are not revised for comparative purposes. The valuation provisions of ASC 718 apply to new grants and to grants that were outstanding as of the effective date and are subsequently modified.

All options granted prior to the adoption of ASC 718 and outstanding during the periods presented were fully-vested at the date of adoption.

Net Income (Loss) per Share

Basic net income per share is computed by dividing net income (loss) attributed to Two Rivers available to common shareholders for the period by the weighted average number of common shares outstanding for the period. Diluted net income (loss) per share is computed by dividing the net income for the period by the weighted average number of common and potential common shares outstanding during the period.

The dilutive effect of 4,615,474 Restrictive Stock Units (“RSUs”), 1,586,533 options and 100,000 warrants at June 30, 2011, has not been included in the determination of diluted earnings per share since they would be anti-dilutive.

Recently issued Accounting Pronouncements

There were various accounting standards and interpretations issued in the six months ended June 30, 2011, none of which are expected to have a material impact on the Company’s financial position, operations or cash flows.

NOTE 3 – NOTES PAYABLE

Beginning on September 17, 2009, Two Rivers began acquiring shares in the Mutual Ditch Company and related land from a Mutual Ditch Company shareholder. As part of these acquisitions, many of the sellers financed notes payable with Two Rivers and HCIC. As of December 31, 2010, these loans totaled \$9,126,000. As of June 30, 2011, these loans totaled \$7,401,000. The notes carry interest at 6% per annum, interest payable monthly, the principal amounts due at various dates from September 1, 2012 through March 31, 2013, and are collateralized by the Mutual Ditch Company shares and land.

As of June 30, 2011, of the \$7,401,000 in seller carry back notes, \$2,114,000 provides the holders the right to convert some or all of the amounts owing into the Company’s stock at \$1/share to \$1.25/share. The holder can convert anytime until the note is paid. These notes are due March 31, 2013 and September 30, 2013 with 6% annual interest, with the interest paid monthly.

During the six months ended June 30, 2011, the Company exchanged \$1,575,000 in Mutual Ditch Company debt into 722,222 shares of the Company’s stock, a cash payment of \$37,500, and \$37,500 in an unsecured note due September 30, 2011. An expense due to loss on extinguishment of note payable of \$272,000 was recognized due to the difference between the stock price conversion and the fair market value of the Company’s common stock.

During the six months ended June 30, 2011, the Company offered holders of HCIC notes the option of an early payoff in exchange for a discount on the face amount of the note. A total of \$189,000 of notes was retired early and a gain on forgiveness of the HCIC notes of \$84,000 was recognized and is netted against the loss of extinguishment of note payables in the statement of operations.

On January 28, 2011, the Company purchased water storage and direct flow from the Orlando Reservoir No. 2 Company, LLC (“Orlando”) for \$3,100,000, which consisted of a cash payment of \$100,000 and a seller financed note payable of \$3,000,000. The note is due January 28, 2014. Interest is to be paid based on 50% of the Company’s gross profits received from all of the Company’s crop operations payment or sales where the water assets from Orlando are used and \$40 per acre foot of water used. The Company is accruing interest at 5% per annum until a better estimate can be made on the payments to be made to Orlando. The holder of the note has an option to convert the amount of all outstanding principal and accrued and unpaid interest into common stock of Two Rivers at the conversion price of \$4.00 per share.

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In February, 2011 the Company offered a \$2,000,000 convertible debt offering. This offering was closed at the end of February, 2011. This offering financed the land, water rights, irrigation, and farm equipment for F-1. The terms of this debt is interest at 5% per annum, one-third of the crop profit and the right to convert debt into Company common stock at \$2.50/share. The note is due March 31, 2014. When the debt was issued and closed, the Company's stock was traded for less than the conversion, so no additional beneficial interest was recognized. Further, the one-third of crop profit will be recognized as a crop expense upon the sale of the crop.

| Note | June 30, 2011 principal balance | June 30, 2011 accrued interest | Interest rate | Security |
|--------------------------------|------------------------------------|--------------------------------------|---------------|------------------------------------|
| Mutual Ditch seller carry back | \$ 7,401,000 | \$ - | 6% | Shares in the Mutual Ditch Company |
| Orlando purchase | 2,900,000 | 37,000 | Various | Orlando assets |
| Convertible debt | 2,000,000 | 25,000 | 5% | F-1 assets |
| Equipment loans | 119,000 | - | 5 - 8% | Specific equipment |
| Total | <u>\$ 12,420,000</u> | <u>\$ 62,000</u> | | |

NOTE 4 – INFORMATION ON BUSINESS SEGMENTS

We organize our business segments based on the nature of the products activities. We primarily focus on the Farming and Water Business with Two Rivers Water Company as the parent company and Two Rivers Farms LLC (and its subsidiaries, Two Rivers Farms F-1, LLC and Two Rivers Farms F-2, LLC) and Two Rivers Waters LLC as subsidiaries.

Two Rivers Water Company also holds its legacy assets that include a mortgage notes receivable. Prior real estate activity is held in Northsight and Northsight's subsidiaries, Southie and Legendary. The summary of the legacy activity and assets is contained in the category "Discontinued Operations."

In the following tables of financial data, the total of the operating results of these business segments is reconciled, as appropriate, to the corresponding consolidated amount. There are some corporate expenses that were not allocated to the business segments, and these expenses are contained in the "Total Operating Expenses" under Two Rivers Water Company.

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Operating results for each of the segments of the Company are as follows (in thousands):

| | For the six months ended June 30, 2011 | | | | | For the six months ended June 30, 2010 | | | | |
|---|--|-------|--------|--------------------------|---------|--|-------|--------|--------------------------|---------|
| | Parent | Farms | Water | Discon- tinued Ops | Total | Parent | Farms | Water | Discon- tinued Ops | Total |
| Revenue | | | | | | | | | | |
| Assessments | \$ - | - | 48 | - | 48 | - | - | 53 | - | 53 |
| Other & misc. | - | - | - | - | - | - | - | - | - | - |
| Gross Profit | - | - | 48 | - | - | - | - | 53 | - | 53 |
| Total Operating Expenses | (2,409) | (248) | (228) | - | (2,885) | (1,266) | (23) | (399) | - | (1,688) |
| Total Other Income/(Expense) | (37) | (100) | (426) | - | (563) | (49) | 1 | (173) | - | (221) |
| Net (Loss) Income from continuing operations before income taxes | (2,446) | (348) | (606) | - | (3,400) | (1,315) | (22) | (519) | - | (1,856) |
| Income Taxes (Expense)/Credit | - | - | - | - | - | - | - | - | - | - |
| Net Income (Loss) from continuing operations | (2,446) | (348) | (606) | - | (3,400) | (1,315) | (22) | (519) | - | (1,856) |
| Discontinued operations: | | | | | | | | | | |
| (Loss) gain from operations of discontinued real estate and mortgage business | - | - | - | (31) | (31) | 11 | - | - | (536) | (525) |
| Income tax benefit | - | - | - | - | - | - | - | - | - | - |
| Loss on discontinued operations | - | - | - | (31) | (31) | 11 | - | - | (536) | (525) |
| Non-controlling interest | - | - | (24) | - | (24) | - | - | 273 | - | 273 |
| Net (Loss) Income | \$ (2,446) | (348) | (630) | (31) | (3,455) | (1,304) | (22) | (246) | (536) | (2,108) |
| Segment assets | \$ 888 | 1,002 | 29,497 | 9 | 31,397 | 827 | 208 | 13,161 | 2,496 | 16,692 |

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NOTE 5 - EQUITY TRANSACTIONS*Stock Options and Restrictive Stock Units (RSUs)*

The Company has a Stock Incentive Plan (the "Incentive Plan"), that allows the Company to grant incentive stock options and/or purchase rights (collectively "Rights") to officers, employees, former employees and consultants of the Company and its subsidiaries. The Board has given the ability to grant Rights to the CEO.

A summary of the Two Rivers option plan is as follows:

| | Shares | Weighted Average Exercise Price |
|---|------------------|--|
| Outstanding, December 31, 2010 | 1,745,562 | \$ 1.37 |
| Granted | 293,333 | \$ 1.49 |
| Cancelled | - | - |
| Expired | - | - |
| Exercised | <u>452,362</u> | <u>\$ 1.25</u> |
| Outstanding, June 30, 2011 | <u>1,586,533</u> | <u>\$ 1.42</u> |
| Options Exercisable , June 30, 2011 | <u>1,526,533</u> | <u>\$ 1.37</u> |

During the year ended December 31, 2010, \$72,000 in option and warrant expense was recognized. During the six months ended June 30, 2011, \$456,000 in option and warrant expense was recognized, and \$44,000 options issued at fair value was recorded as cost of debt (interest expense).

Northsight has an option plan with 200,000 options outstanding and exercisable at June 30, 2011. If all of the Northsight options outstanding at June 30, 2011 were exercised, the impact on the minority interest would be immaterial.

During the year ended December 31, 2010, the Company converted 1,905,948 of its stock options to RSUs. Under ASC 718, a computation was made to perform a fair value of the options and the fair value of the RSUs. Further, during the year ended December 31, 2010, an additional 3,807,140 RSUs were granted to the Company's key employees. The expense recognized for the year ended December 31, 2010 is \$4,841,000. During the six months ended June 30, 2011, the expense recognized was \$999,000. The remaining unamortized amount, including stock option expense, is \$6,013,000. Upon the change of RSU vesting schedules, the valuation of the RSUs were recomputed and amortized in 2010. The RSUs vest over a three year period, beginning in January, 2011.

During the three months ended June 30, 2011, the Company issued 253,333 options with a \$1.25/share strike price and vesting immediately to a consultant for compensation of the consultant's work in the F-1 convertible debt offering and closing. Using the black shoals method, the fair value of these options is estimated to be \$526,000. This amount is being amortized over the three-year life of the convertible note, or \$44,000 per quarter and is recognized as interest/debt expense.

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| | Shares | Exercise Price |
|---------------------------------|---------------|-----------------------|
| Outstanding, January 1, 2010 | - | |
| Granted | 5,713,088 | \$ - |
| Cancelled | - | |
| Expired | - | |
| Exercised | - | |
| Outstanding, December 31, 2010 | 5,713,088 | |
| Granted | 50,000 | |
| Cancelled | - | |
| Expired | - | |
| Exercised | 1,147,614 | \$ - |
| Outstanding, June 30, 2011 | 4,615,474 | \$ - |
| RSUs Exercisable, June 30, 2011 | - | \$ - |

Warrants

As of June 30, 2011, the Company has 100,000 warrants outstanding, with an exercise price of \$1.00/share and expiring on December 31, 2011. During the six months ended June 30, 2011, 50,000 warrants were exercised at \$1/share with net proceeds of \$50,000 to the Company.

NOTE 6 – DISCONTINUED OPERATIONS

During the year ended December 31, 2009, the Company decided to shift its focus from the short term residential mortgage banking and ownership of residential rental property to the Water Project. In order to assist in the funding of the Water Project, the Company began an orderly liquidation of its mortgage and real estate assets. It is expected that this liquidation will be completed by December 31, 2011.

The assets to be liquidated are presented at the lower of cost or current market values, as of June 30, 2011 and December 31, 2010 and are detailed as follows:

| (in thousands) | <u>June 30, 2011</u> | <u>Dec 31, 2010</u> |
|--|----------------------|---------------------|
| Mortgages receivable | \$ 247 | 373 |
| Other real estate owned | - | 123 |
| Subtotal | 247 | 496 |
| Less allowances and depreciation | (144) | (237) |
| Net book value of property to sell | 103 | 259 |
| Less amounts owed on real estate to be sold | - | - |
| Net projected proceeds from discontinued operations assets held for sale | \$ 103 | 259 |

Within the discontinued operations, during the six months ended June 30, 2011 and 2010, the Company recognized a loss on disposal of real estate of \$27,000 and \$44,000 respectively.

Within the discontinued operations, during the six months ended June 30, 2011 and 2010, the Company had \$0 and \$41,000 in revenue net of \$44,000 loss on REO sales, respectively.

Within the discontinued operations, during the three months ended June 30, 2011 and 2010, the Company recognized a loss on disposal of real estate of \$8,000 and \$52,000 respectively.

Within the discontinued operations, during the three months ended June 30, 2011 and 2010, the Company had \$0 and \$68,000 in revenue plus an \$8,000 gain on REO sales, respectively.

Because it is Management's estimate that the above assets to be sold are stated at current fair market value, when these assets are sold it is projected not to be a further gain or loss. However, market conditions can change which would then cause a gain or loss to be recognized upon sale.

These assets are held in the Company's subsidiary, Northsight.

NOTE 7 – LEGAL PROCEEDINGS

Please refer to the Company's December 31, 2010 10K filing. There have been no material changes since the 10K filing.

NOTE 8 – SUBSEQUENT EVENTS

This section includes all subsequent events through the date the financial statements were available to be issued.

Subsequent to June 30, 2011 and through August 9, 2011, the Company had the following material items:

- The Orlando purchase agreement was modified to include the purchase of the assets through a non-affiliated entity with the entity also owning land. On July 29, 2011, \$700,000 was paid toward the purchase of the entity and 325,000 of the Company's common shares were issued to the sellers.
- A grantee of 740,474 RSU shares returned the shares the Company; thereby refusing to take delivery of the shares for income tax purposes. Under IRS regulations, the grantee has up to 12 months to take delivery of the shares.

The Company closed on the initial funding of \$3,740,000 of the F-2 \$6,000,000 offering. The offering includes warrants. With the initial closing, 1,496,000 warrants have been issued with a strike price of \$2.50/share.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Note about Forward-Looking Statements

This From 10-Q contains forward-looking statements, such as statements relating to our financial condition, results of operations, plans, objectives, future performance and business operations. These statements relate to expectations concerning matters that are not historical facts. These forward-looking statements reflect our current views and expectations based largely upon the information currently available to us and are subject to inherent risks and uncertainties. Although we believe our expectations are based on reasonable assumptions, they are not guarantees of future performance and there are a number of important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. By making these forward-looking statements, we do not undertake to update them in any manner except as may be required by our disclosure obligations in filings we make with the Securities and Exchange Commission under the Federal securities laws. Our actual results may differ materially from our forward-looking statements.

Overview

During 2009, Two Rivers focused its business development activities on irrigated farming and water rights acquisition. Due to this new business focus, the Company continued winding down its real estate activities through its subsidiaries Northsight and Southie. Funds generated from the liquidation of real estate promissory notes receivable and selling residential real estate, Two Rivers entered into the Farming and Water Business beginning in July 2009. There can be no assurances that any of our investments will be successful.

The Farming Business is seasonal. Further, we are buying farmland that has not been productive for many years. We expend capital preparing the land for farming, acquiring water rights, building efficient irrigation systems in order for the land to grow crops. Further, farm inputs (expenses relating to planting and growing the crops) are expended during planting until harvest. These expenses are capitalized as Farm Product and then expensed when the harvest and sale of crops occur. Each calendar quarter, the Company's management assesses the need for any impairment of the crop based on the anticipated sales price and yield of the crops planted.

The Company is planning to add another 1,500 acres for crop production. We are targeting land in Huerfano County, Colorado to grow organic alfalfa and hay. The capital to purchase and develop the 1,500 acres of farmland and the associated water rights will be met through a planned "Series B" convertible debt offering to accredited investors. The offering was issued in June, 2011 and \$3,740,000 was closed through August 5, 2011.

Results of Operations

For the three Months Ended June 30, 2011 Compared to the three Months Ended June 30, 2010

During the three months ended June 30, 2011, we recognized revenues from continuing operations of \$48,000 compared to \$35,000 in revenues from continuing operations during the three months ended June 30, 2010. Revenues were a result of Mutual Ditch Company assessments not paid by the Company.

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Within our discontinued operations, during the three months ended June 30, 2011 and 2010 we recognized revenues of \$ -0- compared to \$17,000 (not including of \$8,000 gain from REO sales), respectively. The decrease of \$17,000 in our discontinued operations is a result of our company's new focus on the Farming and Water Business and the liquidation of our legacy mortgage and real estate business.

Operating expenses from continuing operations during the three months ended June 30, 2011 and 2010 were \$1,808,000 and \$965,000, respectively. The increase of \$843,000 is primarily due to the non-cash expense of granting of options, warrants and restrictive stock units (\$959,000 for the three months ended June 30, 2011 compared to \$362,000 for the three months ended June 30, 2010). Management expects the expenses will continue to increase as we expand our business focus in irrigated farming and water.

For continuing operations, during the three months ended June 30, 2011 and 2010, we recognized a net loss of \$1,974,000 and \$1,084,000, respectively. The increased loss of \$890,000 is due from an increase of stock based compensation expense and our rapid expansion of the Farming and Water Business.

For the Six Months Ended June 30, 2011 Compared to the Six Months Ended June 30, 2010

During the six months ended June 30, 2011, we recognized revenues from continuing operations of \$48,000 compared to \$53,000 in revenues from continuing operations during the six months ended June 30, 2010. Revenues were a result of Mutual Ditch Company assessments not paid by the Company.

Within our discontinued operations, during the six months ended June 30, 2011 and 2010 we recognized revenues of \$ -0- compared to \$41,000 (net of \$44,000 loss from REO sales), respectively. The decrease of \$41,000 in our discontinued operations is a result of our company's new focus on the Farming and Water Business and the liquidation of our legacy mortgage and real estate business.

Operating expenses from continuing operations during the six months ended June 30, 2011 and 2010 were \$2,885,000 and \$1,688,000, respectively. The increase of \$1,197,000 is primarily due to the non-cash expense of granting of options, warrants and restrictive stock units (\$1,456,000 for the six months ended June 30, 2011 compared to \$579,000 for the six months ended June 30, 2010). Management expects the expenses will continue to increase as we expand our business focus in irrigated farming and water.

For continuing operations, during the six months ended June 30, 2011 and 2010, we recognized a net loss of \$3,400,000 and \$1,856,000, respectively. The increased loss of \$1,544,000 is due from an increase of stock based compensation expense and our rapid expansion of the Farming and Water Business.

LIQUIDITY

From the Company's inception through June 30, 2011, we have funded our operations primarily from the following sources:

- Equity proceeds through private placements of Two Rivers securities and convertible debt;
- Revenue generated from operations;
- Loans and lines of credit (none currently available);
- Sales of residential properties acquired through deed-in-lieu actions;
- Sales of equity investments, and
- Proceeds from the exercise of legacy Navidec, Inc. Options

Cash flow from operations has not historically been sufficient to sustain our operations without the above additional sources of capital. As of June 30, 2011, the Company had cash and cash equivalents of \$383,000. Cash flow consumed by our operating activities totaled 1,338,000 for the six months ended June 30, 2011 compared to operating activities consuming \$1,032,000 for the six months ended June 30, 2010.

As of June 30, 2011, the Company had \$791,000 in current assets and \$767,000 in current liabilities. The Company intends to continue with its strategy of expanding their Farming and Water Business. Capital for this expansion and support of operations is generated from private placement of its convertible debt offerings.

Cash flows used by our investing activities for the six months ended June 30, 2011 were \$1,075,000 compared to \$5,922,000 for the six months ended June 30, 2010. The decrease is primarily due to the completion of our purchases of the shares in the Mutual Ditch Company partially offset by investments in farming equipment, farming irrigation and the Orlando water rights, water storage and land purchase.

Net cash produced in financing activities was \$2,151,000 for the six months ended June 30, 2011 compared to a production of cash of \$6,558,000 for the six months ended June 30, 2010. During the six months ended June 30, 2011 we completed our convertible debt offering of \$2,000,000 retired selected debt and had \$50,000 in warrant exercises.

During the six months ended June 30, 2010, we generated \$4,944,000 in cash from Mutual Ditch Company seller financing and \$1,620,000 from our private placement.

CRITICAL ACCOUNTING POLICIES

Two Rivers has identified the policies below as critical to Two Rivers' business operations and the understanding of Two Rivers results from operations. The impact and any associated risks related to these policies on the Company's business operations is discussed throughout Management's Discussion and Analysis of Financial Conditions and Results of Operations where such policies affect Two Rivers reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see Note 2 in the Notes to the Consolidated Financial Statements beginning on page [INSERT PAGE NUMBER] of this document. Note that the Company's preparation of this document requires Two Rivers to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of Two Rivers' financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

REVENUE RECOGNITION

Two Rivers follows very specific and detailed guidelines in measuring revenue; however, certain judgments may affect the application of Two Rivers' revenue policy. Revenue results are difficult to predict, and any shortfall in revenue or delay in recognizing revenue could cause Two Rivers' operating results to vary significantly from quarter to quarter and could result in future operating losses.

GOODWILL AND INTANGIBLE ASSETS

During the year ended 2010 and subsequently, the Company has acquired water shares in the Mutual Ditch Company, which is considered an intangible asset. Currently, the water shares are recorded at purchase price less the Company's prorata share of the negative net worth in the Mutual Ditch Company. Management evaluates the carrying value, and if necessary, will establish an impairment of value to reflect current fair market value. Currently, there are no impairments on the land and water shares.

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Two Rivers is exposed to the impact of interest rate changes and change in the market values of the Company's investments. Based on Two Rivers' market risk sensitive instruments outstanding as of June 30, 2011, as described below, it has determined that there was no material market risk exposure to the Company's consolidated financial position, results of operations, or cash flows as of such date. Two Rivers does not enter into derivatives or other financial instruments for trading or speculative purposes.

INTEREST RATE RISK

At June 30, 2011, the Company's exposure to market rate risk for changes in interest rates relates primarily to its borrowings, as well as, its mortgage services business. Two Rivers has not used derivative financial instruments in its credit facilities. A hypothetical 10% increase in the Prime Rate would not be significant to the Company's financial position, results of operations, or cash flows.

IMPAIRMENT POLICY

At least once every year, Two Rivers examines all of their assets for proper valuation and to determine if an allowance for impairment is necessary. In terms of real estate owned, this impairment examination also includes the accumulated depreciation. Management examines market valuations and if an additional impairment is necessary for lower of cost or market, then an impairment charge is recorded.

INVESTMENT RISK

From time to time Two Rivers has made investments in equity instruments in companies for business and strategic purposes. These investments, when held, are included in other long-term assets and are accounted for under the cost method since ownership is less than 20% and Two Rivers does not assert significant influence.

INFLATION

Two Rivers does not believe that inflation will have a material negative impact on its future operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to the impact of interest rate changes and change in the market values of our real estate properties. Based on our market risk sensitive instruments outstanding as of June 30, 2011, as described below, it was determined that there was no material market risk exposure to our consolidated financial position, results of operations, or cash flows as of such date. We do not enter into derivatives or other financial instruments for trading or speculative purposes.

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Based on an evaluation as of the end of the first quarter ended June 30, 2011, our Chief Financial Officer has concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and in providing reasonable assurance that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, specifically the Chief Executive Officer and Chief Financial Officer and board, as appropriate to allow timely decisions regarding required disclosures.

As required by SEC Rule 15d-15(b), our Chief Executive Officer carried out an evaluation under the supervision and with the participation of our management, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 15d-14 as of June 30, 2011. Based on the foregoing evaluation, our Chief Executive Officer has concluded and determined that our internal controls over financial reporting and therefore our disclosure controls and procedures are ineffective in timely alerting him to material information required to be included in our periodic SEC filings and to ensure that information required to be disclosed in our periodic SEC filings is accumulated and communicated to our management, including our Chief Executive Officer, to allow timely decisions regarding required disclosure.

Remediation of Material Weaknesses in Internal Control Over Financial Reporting

As previously disclosed in our past filings with the SEC, management identified material weaknesses in our internal control over financial reporting for the years ended December 31, 2010 and 2009. The weaknesses that the Company previously disclosed related to (a) our lack of adequate processes for monitoring our financial reporting and accounting processes and our failure to conduct a comprehensive review of our account balances and transactions; (b) our lack of appropriate processes and procedures, including inadequate segregation of duties; and (c) our lack of appropriate processes and procedures in relation to the timely review of material documents and transactions for accounting and disclosure purposes. In order to remediate these material weaknesses management plans to retain accounting and financial consultants later in 2011 to assist in the designed and implementation of processes and controls to ensure that (a) all material transactions are properly recorded, reviewed and approved; (b) all significant accounts are reconciled on a timely basis; (c) duties are properly segregated; and, (d) complex accounting issues are properly evaluated and accounted for in accordance with GAAP.

We believe that while not all of the previously identified material weaknesses are fully remediated, our processes are improving and we anticipate making additional improvements in our internal control over financial reporting in fiscal year 2011. However, due to our size it will be unlikely we can justify the hiring of the necessary staff to implement controls required to fully satisfy COSO procedures.

There was no material change in our internal control over financial reporting that occurred during the period, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Please refer to the Company's December 31, 2010 10K filing.

ITEM 1A. RISK FACTORS

Not applicable to Smaller Reporting Issuers.

ITEM 2. CHANGES IN SECURITIES

During the period of April 1, 2011 through June 30, 2011, the Company made no issuances of its unregistered securities.

During the six months ended June 30, 2011, the Company exchanged 722,222 shares of its common stock for the retirement of \$1,500,000 of Mutual Ditch Company seller financing.

Exemption From Registration Claimed

All of the sales by the Company of its unregistered securities were made by the Company in reliance upon Section 4(2) of the Securities Act of 1933, as amended (the "1933 Act") and Regulation D promulgated thereunder. All of the individuals and/or entities listed above that purchased the unregistered securities were almost, all known to the Company and its management, through pre-existing business relationships, as long standing business associates and/or employees. All purchasers were provided access to all material information, which they requested, and all information necessary to verify such information and were afforded access to management of the Company in connection with their purchases. All purchasers of the unregistered securities acquired such securities for investment and not with a view toward distribution, acknowledging such intent to the Company. All certificates or agreements representing such securities that were issued contained restrictive legends, prohibiting further transfer of the certificates or agreements representing such securities, without such securities either being first registered or otherwise exempt from registration in any further resale or disposition.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

NONE

ITEM 4. (RESERVED AND REMOVED)

ITEM 5. OTHER INFORMATION

NONE

Two Rivers Water Company June 30, 2011 10Q

ITEM 6. EXHIBITS

The following is a complete list of exhibits filed as part of this Form 10K. Exhibit number corresponds to the numbers in the Exhibit table of Item 601 of Regulation S-K.

| Number | Description | |
|--------|--|----------------|
| 31.1 | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act | Filed Herewith |
| 31.2 | Certification of Principal Financial Officer pursuant to the Section 302 of the Sarbanes-Oxley Act | Filed Herewith |
| 32.1 | Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act | Filed Herewith |
| 32.2 | Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act | Filed Herewith |

Two Rivers Water Company June 30, 2011 10Q

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SIGNATURES

Pursuant to the requirements of Section 12 of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TWO RIVERS WATER COMPANY (Registrant)

Dated: August 10, 2011

By: /s/ John McKowen

Chief Executive Officer & Chairman of the Board

By: /s/ Wayne Harding

Chief Financial Officer & Principal Accounting Officer

Exhibit 31.1

CERTIFICATION PURSUANT TO 18 U.S.C. ss. 1350, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John R. McKowen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Two Rivers Water Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

Dated: August 10, 2011

By: /s/ John McKowen
Chief Executive Officer & Chairman of the Board

Exhibit 31.2

CERTIFICATION PURSUANT TO 18 U.S.C. ss. 1350, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Wayne Harding, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Two Rivers Water Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

Dated: August 10, 2011

By: /s/ Wayne Harding,
Chief Financial Officer & Principal Accounting Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Two Rivers Water Company on Form 10-Q for the period ended June 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John McKowen Chief Executive Officer and Chairman of the Board of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 10, 2011

By: /s/ John McKowen
Chief Executive Officer & Chairman of the Board

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Two Rivers Water Company on Form 10-Q for the period ended June 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Wayne Harding, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 10, 2011

By: /s/ Wayne Harding
Chief Financial Officer & Principal Accounting Officer

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FORM 10-K

TWO RIVERS WATER Co - TURV

Filed: March 30, 2010 (period: December 31, 2009)

Annual report which provides a comprehensive overview of the company for the past year

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

Or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 000-51139



TWO RIVERS WATER COMPANY

(Exact name of registrant as specified in its charter)

Colorado
State or other jurisdiction of
incorporation or organization

13-4228144
I.R.S. Employer
Identification No.

2000 South Colorado Boulevard, Annex Ste 200, Denver, CO 80222
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code:
(303)222-1000

Title of each class registered
Not Applicable

Securities registered pursuant to Section 12(b) of the Act:

Name of each exchange on
which registered
Not Applicable

Securities registered pursuant to Section 12(g) of the Act:
Common Stock
(Title of class)

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 not 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 (ss. 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One).

| | | | |
|--|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer (Do not check if a smaller reporting company) | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The aggregate market value of voting stock held by non-affiliates of the registrant was approximately \$11,979,000 as of December 31, 2009.

There were 9,214,583 shares outstanding of the registrant's Common Stock as of March 15, 2010.

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Note about Forward-Looking Statements

This From 10-K contains forward-looking statements, such as statements relating to our financial condition, results of operations, plans, objectives, future performance and business operations. These statements relate to expectations concerning matters that are not historical facts. These forward-looking statements reflect our current views and expectations based largely upon the information currently available to us and are subject to inherent risks and uncertainties. Although we believe our expectations are based on reasonable assumptions, they are not guarantees of future performance and there are a number of important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. By making these forward-looking statements, we do not undertake to update them in any manner except as may be required by our disclosure obligations in filings we make with the Securities and Exchange Commission under the Federal securities laws. Our actual results may differ materially from our forward-looking statements.

PART I

ITEM 1. BUSINESS

GENERAL

The following is a summary of some of the information contained in this document. Unless the context requires otherwise, references in this document to "Two Rivers Water Company," "Two Rivers," or the "Company" is to Two Rivers Water Company and its subsidiaries.

Two Rivers Water Company was incorporated in December 2002 in the state of Colorado, as a wholly owned subsidiary of Navidec Inc. ("Old Navidec"). The Company was formerly known as Navidec Financial Services, Inc. until it changed its name on November 19, 2009 to Two Rivers Water Company. The Company's operations are primarily centered in Colorado and Arizona. Two Rivers maintains a website at www.2riverswater.com, which is not incorporated in and is not a part of this report.

Two Rivers currently operates a water acquisition, development and distribution business in Huerfano County, Colorado (the "Water Business") through its 50% owned subsidiary HCIC Holdings, LLC, a Colorado limited liability Company ("HCIC"). On August 17, 2009 HCIC was formed to acquire and operate the Water Business.

In addition, Two Rivers operates the following businesses: (a) property management and residential real estate brokerage in Arizona, and (b) development of a three unit residential condominium in Boston Massachusetts. The Company is in the process of liquidating its real estate and mortgage assets through the sale of residential properties acquired through foreclosure and the payoff of the two remaining mortgages it holds.

In August 2009, the Board authorized a private placement at \$1.50/share of the Company's restricted common stock. This offering raised \$150,000 selling 150,000 shares of the Company's stock. After this offering, the Board approved an engagement letter whereby a broker/dealer offered a private placement of the Company's restricted common stock at \$2.00/share. The broker/dealer did not place any of the offering. Due to this inactivity, the Board approved a new private placement effective January 5, 2010 to offer the Company's restricted common stock at \$1.00/share. The maximum offering is 5,000,000 shares, no minimum, and the offering expires February 28, 2010, and subsequently extended by the Board to March 31, 2010. There can be no assurances that the Company will be able to raise funds under its current private placement.

Two Rivers Water Company

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OUR WATER BUSINESS

The Company intends to focus its entire efforts on the development of the Water Business and other related businesses. Therefore, the Company is winding down and disposing of its other businesses. The Company is in the process of completing the purchase of the remaining outstanding shares that it does not own of the Huerfano-Cucharas Irrigation Company; a Colorado Mutual Ditch Company located in Huerfano and Pueblo counties in the State of Colorado (the “Mutual Ditch Company”) and additional land which would assist in perfecting water rights and provide additional water resources. As of December 31, 2009 HCIC had an 18% ownership in the Mutual Ditch Company. As of March 1, 2010, the HCIC owned 59% of the Mutual Ditch Company.

The Mutual Ditch Company owns a large privately held, on-stream reservoir of 41,200 acre feet capacity with associated direct flow and storage rights and a mutual ditch water distribution system that holds easement rights into the Arkansas River.

The Company’s objective is to develop the Mutual Ditch Company’s water resources and enhance water storage capacity through a major dam and structure renovation and improvement project. The Company’s proposed renovation and improvement project is expected to result in the dam’s storage capacity being restored to the fully permitted 41,200 acre feet.

The Company’s purchase and subsequent development of the Mutual Ditch Company and related properties is referred to as the “Water Project.” The subsequent development began after the Company acquired a majority interest in the Mutual Ditch Company. Initial development activities have included engaging an engineering consulting firm to prepare the plans and permits for dam construction and the clearing of the ditch distribution system with the associated ditch improvements.

As part of the Water Project, the Company intends to undertake engineering design, dam construction and ditch repair. Once the dam and structure renovation and improvement project is completed and the system is fully operational, the Company intends to assemble an additional strategic portfolio of upstream storage and direct flow water rights and to acquire additional properties and reservoirs in the area. The Company plans to acquire additional upstream water rights and shed superfluous water rights on favorable terms.

SUBSIDIARIES

TRWC, INC. (formerly Two Rivers Water Company)

On July 28, 2009, the Company formed Two Rivers Water Company, a Colorado corporation. On November 19, 2009, with the shareholder approval, the Company changed its parent name from Navidec Financial Services, Inc. to Two Rivers Water Company. Simultaneously the Company changed the original Two Rivers Water Company’s name to TRWC, Inc. (“TRWC”).

It is the Company’s future intent to use TRWC to hold agriculture real estate.

HCIC HOLDINGS, LLC

Two Rivers currently operates a water acquisition, development and distribution business in Huerfano County, Colorado through its 50% owned subsidiary HCIC, which at December 31, 2009 had an 18% ownership in the Mutual Ditch Company. As of March 1, 2010, HCIC owned 59% and had under contract to purchase another 27% of the Mutual Ditch Company.

Two Rivers Water Company

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On August 17, 2009, Two Rivers through its wholly owned subsidiary TRWC and Two Rivers Basin, LLC ("TRB") formed HCIC, a joint venture. Under the terms of the Joint Venture agreements, the Company, at the Company's sole discretion, can contribute up to \$2,850,000 in cash. As of December 31, 2009 the Company has contributed \$1,807,000 in HCIC. At March 11, 2010, the Company has contributed \$3,404,000 to HCIC and the related Water Project. Since the Company has funded the Joint Venture as required up to the maximum of \$2,850,000, the Company has recognized the \$2,850,000 as their capital contribution to the Joint Venture in the Company's December 31, 2009 financial statements. The capital contribution was eliminated in the consolidation with HCIC.

Further, due to the Company being the sole contributor of operational cash, without which HCIC would be unable to operate, the Company is treating its investment in HCIC as a Variable Interest Entity ("VIE"). Further, the Company will be the ultimate 100% owner of HCIC based on performance by the Company, so it is considered the primary beneficiary and under US GAAP should consolidate HCIC.

In coming to the conclusion to consolidate HCIC, the Company researched the authoritative literature as it pertains to the equity method of accounting and joint ventures (ASC 323.10.15). Other considerations to be examined if there is a VIE relationship which pertains to the Company includes representation on the board of directors; participating in policy-making processes, and the interchange of managerial personnel (ASC 323.10.15-6). Further, accounting standards require valuing TRB's contribution in HCIC at fair value, which is estimated to be \$2,850,000.

Before the formation of HCIC on August 17, 2009, TRB paid \$130,000 to 93% of the shareholders of the Mutual Ditch Company for the right to purchase the shares of the Mutual Ditch Company. During the three months ended September 30, 2009, HCIC paid \$70,000 to extend the option to purchase land and water shares from shareholders of the Mutual Ditch Company. If the land and water shares are purchased, the option payments will reduce the purchase price. Subsequent to December 31, 2009, HCIC exercised options for an additional 41% of the shares of the Mutual Ditch Company, making its ownership at 59% as of February 26, 2010.

NORTHSIGHT, INC. (formerly Navidec Mortgage Holdings, Inc.)

On September 11, 2003, Old Navidec purchased an 80% interest in Northsight Mortgage Group, LLC ("NMG"), an Arizona mortgage broker, in exchange for 197,056 shares of Old Navidec common stock, valued at \$246,320. The remaining 20% of NMG was owned by Dan Walen, James Kearns and Ronald Lynch.

In September 2004, the Company was spun off from Old Navidec as part of a reverse merger completed between BPZ Resources, Inc and Old Navidec. As a condition to the reverse merger, the Company assumed all the legacy assets and liabilities of Old Navidec which included the 80% ownership of NMG.

On May 4, 2005, we formed Navidec Mortgage Holdings, Inc., a Colorado corporation ("NMH"), as a subsidiary and received 8,000,000 common shares of NMH. On November 11, 2007, NMH amended its articles of incorporation and changed its name to Northsight.

On October 12, 2007, we exchanged our 80% interest in NMG for 12,000,000 common shares of Northsight to bring the total common shares of Northsight owned by Two Rivers to 20,000,000 shares. On October 12, 2007, Northsight purchased the remaining 20% minority interest in NMG from the minority members for 800,000 shares of Northsight. As a result of this transaction we own 98% of Northsight and the former minority members of NMG owned 2% of Northsight.

Two Rivers Water Company

Starting in July 2007, we began lending money to Northsight to enable Northsight to make short term, mortgage backed loans to borrowers who were purchasing deeply discounted or foreclosed residential real estate in Arizona and Colorado. From July 2007 until June 2008, Two Rivers advanced funds for Northsight to lend as short-term mortgage backed loans. The advances to Northsight yield 12% and are callable on demand by Two Rivers. Our loans to Northsight were collateralized by first deeds of trust or assignments of trust deeds on residential real estate. In June 2008, Northsight transferred the ownership of the first lien mortgages and notes to Two Rivers in exchange for \$4,311,000, the amount owed Two Rivers from Northsight. As of December 31, 2009 and 2008 respectively, Two Rivers had \$231,000 and \$2,203,000 (net of an allowance for impairment of \$139,000 and \$476,000, respectively) in short term bridge loans outstanding.

Due to a dramatically worsening mortgage, housing and macro-economic environment in the last year, Northsight modified its business plan. Wholesale mortgage lending declined significantly due to a drop off in wholesale mortgage lenders, thereby making it extremely difficult for mortgage brokers to find mortgage loan products. Mortgage banks, as compared to a mortgage broker, have fared better although at less than optimum levels. Northsight is undergoing an orderly sale of the majority of its assets.

Additionally, Northsight has cut back significantly on short term bridge lending in an effort to reduce its exposure to credit risk. The largest portion of the Company's consolidated operational expense was related to short term bridge loans and conventional mortgage originations. Those operational expenses have been significantly reduced.

Northsight is a mortgage broker subject to state and federal regulations regarding consumer protection, including Truth-In-Lending and RESPA, since it originates consumer loans. NMG is a licensed mortgage broker in the State of Arizona. There are registration and limited licensing requirements for being a mortgage broker in the State of Colorado.

SOUTHIE DEVELOPMENTS, LLC

Two Rivers formed a Colorado limited liability company, Southie Developments, LLC, ("Southie") on January 31, 2008, as its sole and managing member. Southie was organized to develop residential real estate for resale and to own and manage residential real estate acquired via foreclosure of real estate loans owned by Two Rivers. Once a real estate loan defaults and Two Rivers obtains title to the collateral, Two Rivers transfers the property to Southie for development and management. As part of the management and development of the properties transferred to it, Southie honors any existing residential leases and will potentially expend monies for rehabilitation of the property with the option of selling the property in a short time period, usually less than one year. However, if Southie deems the property to be a good longer term investment, they might hold the property for periods longer than 12 months. At December 31, 2009, Southie owns six properties, of which four residential properties are in Arizona and two properties are in Colorado acquired by foreclosure or deed-in-lieu process. At December 31, 2009, the carrying value of these properties was \$1,034,000.

In November 2007, Northsight purchased 56 Thomas Park, South Boston, Massachusetts 02127, a residential property, for \$1,200,000 ("Thomas Park Property"). The Thomas Park Property is a 6,000 square feet single family residence that Northsight is converting into three 2,000 square feet individual condominium single family units. On May 19, 2008, Southie acquired a \$1,200,000 construction loan with Mt. Washington Cooperative Bank for the development of the Thomas Park Property. The loan is due on June 1, 2010 with monthly interest only payments, at prime plus 2% interest rate and an interest rate floor of 7%. As of December 31, 2009, the balance owed on the loan was \$950,000. Previously this loan was due on November 19, 2009 but was extended to June 1, 2010. As part of the agreement to extend the loan a principal reduction was due and an establishment of a restricted cash account to cover interest payments until June 1, 2010. The restricted cash account was not established until January 12, 2010 and totaled \$46,000. As of December 31, 2009, the Company had invested \$2,962,000 including the bank construction loan of \$950,000. The Thomas Park Property is now listed for sale.

Effective January 1, 2010, Two Rivers transferred 100% of its ownership of Southie to Northsight.

Two Rivers Water Company

LEGENDARY INVESTMENT GROUP, LLC

Legendary Investment Group, LLC (“Legendary”) is a limited liability company under the laws of the state of Arizona. It was formed in October 2008 and in December 2008 became a 100% owned subsidiary of Northsight. Northsight acquired Legendary based on Northsight’s ability to fund and expand Legendary’s business. There is no formal amount of future funding and expansion and Northsight can withdrawal their funding at any time without material future financial exposure. Legendary’s business is in Arizona and focused on residential investors and property management. Legendary has assisted the Company with the management of Arizona property owned by the Company and selling Arizona property owned by the Company.

COMPETITION

Water resources in Colorado and most of the Western United States are scarce which make water acquisition strongly competitive. Most of our competitors have significantly greater financial resources, technical expertise and managerial capabilities than us and, consequently, we will be at a competitive disadvantage in storing and distributing water. Competitors' resources could overwhelm our restricted efforts and cause adverse consequences to our operational performance.

EMPLOYEES

At December 31, 2009, the Company and its subsidiaries employed 6 full-time employees and 1 part-time employee. None of these employees are covered by a collective bargaining agreement. The Chief Executive Officer and the Chief Financial Officer have entered into employment agreements with Two Rivers. We consider our relationship with our employees to be good.

AVAILABLE INFORMATION

The Company’s common stock is traded on the Over-The-Counter Stock Market under the symbol “TURV.” A copy of our Annual Report on Form 10-K along with copies of our quarterly reports on Form 10-Q and current reports on Form 8-K required to be filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, and can be found on the Edgar database at www.sec.gov. In addition our SEC reports are available free of charge from the Company upon written request to Wayne Harding, CFO, Two Rivers Water Company, Annex Ste. 200, 2000 S Colorado Blvd., Denver CO 80222, or you may retrieve investor information by going to the Company’s website at www.2riverswater.com.

Two Rivers Water Company

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ITEM 1A. RISK FACTORS

Two River's securities are highly speculative and should be purchased only by persons who can afford to lose their entire investment. Readers should carefully consider the following risk factors, as well as all other information set forth elsewhere in this annual report, in relation to the shares of its common stock.

Company Risk Factors

Two Rivers can give no assurance of success or profitability to investors.

There is no assurance that the Company will operate profitably. There is no assurance that the Company will generate revenues or profits, or that the market price of its common stock will be increased thereby. During the year ended December 31, 2009, the Company incurred a net loss of \$2,925,000 and during the year ended December 31, 2008, the Company recognized a net income of \$182,000.

We may in the future issue more shares which could cause a loss of control by present management and current stockholders and/or dilution to investors.

There may be substantial dilution to our shareholders as a result of future decisions of our Board to issue shares without shareholder approval for cash, services, or acquisitions at prices solely determined by our Board. Additionally, upon issuance, such shares could represent a majority of the voting power and equity of the Company. The result of such an issuance would be those new stockholders and management would control the Company, and persons unknown could replace management at such time.

Officers and directors may have conflicts of interest which may not be resolved favorably to the Company.

Certain conflicts of interest may exist between the Company and our Officers and Directors. Our Officers and Directors have other business interests to which they devote their attention and may be expected to continue to do so although management time should be devoted to our business. As a result, conflicts of interest may arise that can be resolved only through exercise of such judgment as is consistent with fiduciary duties to us. See "Directors, Executive Officers, and Control Persons" (page 26), and "Conflicts of Interest" (page 28).

Two Rivers has a relatively short operating history, so investors have no way to gauge our long term performance.

Two Rivers was formed in December 2002 and in 2003 acquired control of Northsight, a mortgage broker. Northsight and Southie represent a significant portion of Two Rivers' assets and Two Rivers is in the process of liquidating the majority of Northsight's assets. Two Rivers might not be successful in liquidating Northsight's assets for the value carried on its books.

Two Rivers is not diversified and is dependent on only one business.

Because of the limited financial resources, Two Rivers may not be able to diversify its operations. The inability to diversify our activities into more than one area will subject Two Rivers to economic fluctuations within the real estate finance industry and therefore increase the risks associated with its operations due to lack of diversification.

The inability to attract and retain qualified employees could significantly harm our business.

The market for skilled executive officers and employees knowledgeable in agriculture and water rights is highly competitive and historically has experienced a high rate of turnover. Competition for quality officers and employees may lead to increased hiring and retention costs.

Two Rivers' officers and directors may have conflicts of interests as to corporate opportunities which Two Rivers may not be able or allowed to participate in.

Presently there is no requirement contained in our Articles of Incorporation, Bylaws, or minutes which requires officers and directors of our business to disclose to us business opportunities which come to their attention. Our officers and directors do, however, have a fiduciary duty of loyalty to us to disclose to us any business opportunities which come to their attention, in their capacity as an officer and/or director or otherwise. Excluded from this duty would be opportunities which the person learns about through his involvement as an officer and director of another company. Two Rivers has no intention of merging with or acquiring business opportunity from any affiliate or officer or director. (See "Conflicts of Interest" at page 28.)

Two Rivers Water Company

Two Rivers has substantial competitors who have an advantage over the Company in resources and management.

Most of Two Rivers' competitors have significantly greater financial resources, technical expertise and managerial capabilities than us and, consequently, Two Rivers will be at a competitive disadvantage in identifying and developing or exploring suitable prospects. Competitors' resources could overwhelm Two Rivers' restricted efforts and cause adverse consequences to Two Rivers' operational performance.

Two Rivers has agreed to indemnification of officers and directors as is provided by Colorado Statutes.

Colorado Statutes provide for the indemnification of our directors, officers, employees, and agents, under certain circumstances, against attorney's fees and other expenses incurred by them in any litigation to which they become a party arising from their association with any activities on our behalf. Two Rivers will also bear the expenses of such litigation for any of our directors, officers, employees, or agents, upon such person's promise to repay us therefore if it is ultimately determined that any such person shall not have been entitled to indemnification. This indemnification policy could result in substantial expenditures by us that Two Rivers will be unable to recoup.

Our directors' liability to us and shareholders is limited.

Colorado Revised Statutes exclude personal liability of Two Rivers' directors and our stockholders for monetary damages for breach of fiduciary duty except in certain specified circumstances. Accordingly, Two Rivers will have a much more limited right of action against our directors that otherwise would be the case. This provision does not affect the liability of any director under federal or applicable state securities laws.

Two Rivers may depend upon outside advisors, who may not be available on reasonable terms and as needed.

To supplement the business experience of Two Rivers' officers and directors, Two Rivers may be required to employ accountants, technical experts, appraisers, attorneys, or other consultants or advisors. Our Board, without any input from stockholders, will make the selection of any such advisors. Furthermore, Two Rivers anticipates that such persons will be engaged on an "as needed" basis without a continuing fiduciary or other obligation to us. In the event Two Rivers considers it necessary to hire outside advisors, it may elect to hire persons who are affiliates, if they are able to provide the required services.

Material weaknesses in our internal control over financial reporting and disclosure controls and procedures could adversely impact the reliability of our internal control over financial reporting.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2009, and this assessment identified material weaknesses in our internal control over financial reporting. As a result, our management concluded that our internal control over financial reporting was not effective as of December 31, 2009. Material weaknesses and other control deficiencies in our internal control over financial reporting and disclosure controls and procedures have led to restatements of our consolidated financial statements. Since the identification of the material weaknesses, we have implemented and are continuing to implement various initiatives intended to improve our internal control over financial reporting and disclosure controls and procedures to address these material weaknesses. No assurance can be given that we will be able to successfully implement remediated controls and procedures or that our remediated controls and procedures will be effective in remedying all identified deficiencies in our internal control over financial reporting and disclosure controls and procedures. There also can be no assurances that these material weaknesses will be rectified or that additional material weaknesses in our internal controls will not be identified. The existence of one or more material weaknesses in our internal control over financial reporting impacts the reliability of our internal control over financial reporting.

Two Rivers Water Company

Our success will depend, to a large degree, on the expertise and experience of the members of our management team.

Our success in identifying investment opportunities and pursuing and managing such investments is, to a large degree, dependent upon the expertise and experience of the management team and their ability to attract and retain quality personnel.

Risk Factors Relating To The Water Project And The Water Business

Control of the Water Project

If the Company does not contribute a total of \$15,000,000 to HCIC it will only own a 50% interest in HCIC.

Insufficient funds to develop the infrastructure of the Mutual Ditch Company.

If we are unable to obtain any additional funds through the sale of additional equity, borrowings or government grants we will not be able to operate the water company profitably. No assurance can be given that any such funds will be available or, if available, the cost of obtaining such funds and the resulting effect on our shareholders.

The Water Project requires significant capital expenditures

The Water Project is capital intensive. On an annual basis, we could spend significant sums of money for additions to, or replacement of, our property, reservoir and equipment. We must obtain funds for these capital projects from operations or capital raised. We cannot provide assurance that any sources will be adequate or that the cost of funds will be at levels permitting us to earn a reasonable rate of return. We have committed up to \$15,000,000 in capital expenditures for the HCIC venture and have no committed source for the balance of this amount.

The Company has no operating history in the Water Business, so investors have no way to gauge our long term performance.

The Company is now focused on storing and distributing water. While certain members of the Company's Board of Directors have experience in the water business in Colorado, the Company to date has no experience in the water business and therefore, its business plan should be considered highly speculative.

We have substantial competitors who have an advantage over us in resources and management.

Most of our competitors have significantly greater financial resources, technical expertise and managerial capabilities than us and, consequently, we will be at a competitive disadvantage in storing and distributing water. Competitors' resources could overwhelm our restricted efforts and cause adverse consequences to our operational performance.

Two Rivers Water Company

Dry weather or droughts may adversely affect the collection of our water.

Our water is obtained from surface runoff and stream flows. In dry years or droughts less water may be available to fill our reservoir structures and be available for sale/lease, which could substantially impact revenues and cause losses.

Our water rights may not yield full flow every year.

Water rights in the west are subject to the Doctrine of Prior Appropriation, which could jeopardize collection of water in dry years for junior water rights. Water rights that are senior (the year 1863 at the earliest) have priority over junior years as to use in dry years and junior rights might not get water or as much water as they wish, if senior rights use it all.

This business is heavily regulated and, as a result, decisions by regulatory agencies and changes in laws and regulations can significantly affect our water business.

Regulatory decisions may impact prospective revenues and earnings, affect the timing of the recognition of revenues and expenses, may overturn past decisions used in determining our revenues and expenses and could result in impairment of goodwill. Management continually evaluates the assets, liabilities and revenues subject and provides for allowances and/or reserves as deemed necessary.

Regulatory agencies may also change their rules and policies which may adversely affect our profitability and cash flows.

We may also be subject to fines or penalties if a regulatory agency determines that we have failed to comply with laws, regulations or orders applicable to our water businesses.

The adequacy of our water supplies depends upon a variety of uncontrollable factors.

The adequacy of our water supplies varies from year to year depending upon a variety of factors, including:

- Rainfall, runoff, flood control and availability of reservoir storage;
- Availability of Huerfano River water;
- The amount of useable water stored in reservoirs and groundwater basins;
- The amount of water used by our customers and others;
- Water quality; and
- Legal limitations on production, diversion, storage, conveyance and use.

Population growth and increases in the amount of water used in urban areas have caused increased stress on surface water supplies and groundwater basins. We intend to seek to secure additional supplies from conservation and water exchanges with agricultural water users, but it is not known to what extent these efforts will be successful and sustainable.

We obtain our water supply from surface tributaries: the Huerfano and Cucharas Rivers. Our water supply and storage may be subject to interruption or reduction if there is an interruption or reduction in water supplies available to us. Our supply and storage business is dependent upon our ability to meet the requirements of the Colorado Water Engineer's office regarding our water rights priorities.

Two Rivers Water Company

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Water shortages may:

- adversely affect our supply mix, for instance, causing increased reliance upon more expensive water sources;
- adversely affect our operating costs, for instance, by increasing the cost of producing water from more highly contaminated aquifers;
- result in an increase in our capital expenditures, for example by requiring the construction of pipelines to connect to alternative sources of supply, new wells to replace those that are no longer in service or are otherwise inadequate to meet the needs of our customers, and reservoirs and other facilities to conserve or reclaim water; and
- adversely affect the volume of water sold as a result of mandatory or voluntary conservation efforts by customers.

We are required to maintain water quality standards and are subject to regulatory and environmental risks.

We must provide water that meets all federal and state regulatory water quality standards. We face contamination and pollution issues regarding our water supplies. Improved detection technology, increasingly stringent regulatory requirements, and heightened consumer awareness of water quality issues contribute to an environment of increased focus on water quality. We cannot assure you that in the future we will be able to reduce the amounts of contaminants in our water to acceptable levels.

Our water supplies are subject to contamination, including contamination from naturally occurring compounds, pollution from man-made sources and intentional sabotage. We cannot assure you that we will successfully manage these issues, and failure to do so could have a material adverse effect on our future results of operations. We might not be able to recover the costs associated with these liabilities through our rates and charges or insurance or such recovery may not occur in a timely manner.

Our earnings may be affected, to large extents, by weather during different seasons

The demand for water varies by season. For instance, most water consumption occurs during the third quarter of each year when weather tends to be hot and dry. During unusually wet weather, our customers generally use less water.

Our proposed water operations are geographically concentrated in Colorado

Our operations are concentrated in Southern Colorado. As a result, our financial results are subject to political, available water supply, labor, utility cost and regulatory risks, economic conditions and other economic risks affecting Colorado. South Eastern Colorado has been hard hit by the current economic crisis. Colorado is raising taxes in order to balance the state budget and jobs may be lost to other states which are perceived as having a more business friendly climate, thereby exacerbating the impact of the financial crisis in Colorado.

We operate in areas subject to natural disasters

We operate in an area that is prone to floods, droughts and other natural disasters. While we plan to maintain insurance policies to help reduce our financial exposure, a significant seismic event in southern Colorado, where our operations are concentrated, or other natural disasters in Colorado could adversely impact our ability to deliver water and adversely affect our costs of operations and profitability.

Two Rivers Water Company

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We may lose all of our investment, which, depending on the amount of our investment, could have a material impact on our market valuation.

Two Rivers has made a substantial investment in the Water Business. Our investment in the Water Business will not assure success of the Water Business. If the Water Business fails, Two Rivers and its shareholders will be adversely impacted.

Risk Factors Relating To The Legacy Businesses

We have experienced losses and delays and expenses connected with the liquidation of foreclosed properties.

There could be substantial delays in connection with the liquidation of mortgage loans that are delinquent. Further, liquidation expenses, such as legal fees, real estate taxes and maintenance and preservation expenses reduce proceeds achievable on resale.

The value of real estate in our market areas has declined materially, and a significant portion of our loan portfolio became under-collateralized, which had a material adverse effect on our asset quality, capital structure, and profitability.

At December 31, 2009, 100% of our remaining two loans with an aggregate principal balance of approximately \$371,000 were collateralized by real estate. The real estate collateral that provides the source of repayment in the event of default has deteriorated in value during the term of the loan. As we have liquidated the collateral securing a loan to satisfy the debt during this period of reduced real estate values, our earnings and capital have been adversely affected.

Recently declining values of residential real estate may increase our credit losses, which would negatively affect our financial results.

Two Rivers, through its subsidiary Northsight, recently offered collateralized loans, including real estate, construction, home equity, and consumer loans. Northsight loans are collateralized by real estate (both residential and commercial) in the market area. A major change in the real estate market, such as deterioration in the value of this collateral, or in the local or national economy, could adversely affect our customer's ability to pay these loans, which in turn could impact us. Risk of loan defaults and foreclosures are unavoidable in the banking industry, and Northsight tries to limit our exposure to this risk by monitoring the extensions of credit and collateral, carefully. Two Rivers cannot fully eliminate credit risk, and as a result credit losses may occur in the future.

The current dislocations in the subprime mortgage sector, and the current weakness in the broader financial market, could adversely affect Two Rivers, which could result in increases in defaults, reductions in our liquidity and reductions in the value of the investments in our portfolio.

The continuing dislocations in the subprime mortgage sector and the current weakness in the broader financial market could adversely affect the Northsight portfolio and could cause Two Rivers to be unable to continue to raise additional financing because of the inability to sell existing real estate held by Two Rivers. This could potentially limit our ability to continue operations, increase our costs and reduce our liquidity.

Recent developments in the market for many types of mortgage products have resulted in reduced liquidity for, and value of, these assets. Although this reduction in liquidity has been most acute with regard to subprime assets, there has been an overall reduction in liquidity and value across the credit spectrum of mortgage products.

Two Rivers Water Company

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Risk Factors Related To Our Stock

The regulation of penny stocks by SEC and FINRA may discourage the tradability of our securities.

Two Rivers is classified as a “penny stock” company. Our common stock currently trades on the OTC BB and is subject to a Securities and Exchange Commission rule that imposes special sales practice requirements upon broker-dealers who sell such securities to persons other than established customers or accredited investors. For purposes of the rule, the phrase “accredited investors” means, in general terms, institutions with assets in excess of \$5,000,000, or individuals having a net worth in excess of \$1,000,000 or having an annual income that exceeds \$200,000 (or that, when combined with a spouse’s income, exceeds \$300,000). For transactions covered by the rule, the broker-dealer must make a special suitability determination for the purchaser and receive the purchaser’s written agreement to the transaction prior to the sale. Effectively, this discourages broker-dealers from executing trades in penny stocks. Consequently, the rule will affect the ability of purchasers in this offering to sell their securities in any market that might develop therefore because it imposes additional regulatory burdens on penny stock transactions.

In addition, the Securities and Exchange Commission has adopted a number of rules to regulate “penny stocks.” Such rules include Rules 3a51-1, 15g-1, 15g-2, 15g-3, 15g-4, 15g-5, 15g-6, 15g-7, and 15g-9 under the Securities and Exchange Act of 1934, as amended. Because Two Rivers’ securities constitute “penny stocks” within the meaning of the rules, the rules would apply to us and our securities. These rules will further affect the ability of owners of shares to sell our securities in any market that might develop for them because it imposes additional regulatory burdens on penny stock transactions.

Shareholders should be aware that, according to Securities and Exchange Commission, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (i) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (ii) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (iii) “boiler room” practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (iv) excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and (v) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired consequent investor losses. Our management is aware of the abuses that have occurred historically in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to our securities.

Rule 144 sales of our shares in the future may have a depressive effect on our stock price.

All of the outstanding shares of common stock held by our present officers, directors, and affiliate stockholders are “restricted securities” within the meaning of Rule 144 under the Securities Act of 1933, as amended. As restricted shares, these shares may be resold only pursuant to an effective Registration Statement or under the requirements of Rule 144 or other applicable exemptions from registration under the Act and as required under applicable state securities laws. Rule 144 provides in essence that a person who has held restricted securities for six months may sell without restriction, except for affiliates, under certain conditions, may sell every three months, in brokerage transactions, a number of shares that does not exceed the greater of 1.0% of a company’s outstanding common stock or the average weekly trading volume during the four calendar weeks prior to the sale. There is no limit on the amount of restricted securities that may be sold by a non-affiliate after the owner has held the restricted securities for a period of six months. A sale under Rule 144 or under any other exemption from the Act, if available, or pursuant to subsequent registration of shares of common stock of present stockholders, may have a depressive effect upon the price of our common stock in any market that may develop.

Two Rivers Water Company

There may be substantial dilution to our shareholders as a result of future decisions of our Board to issue shares without shareholder approval for cash, services, or acquisitions at prices solely determined by our Board.

Our stock may be thinly traded and as a result shareholders may be unable to sell at or near ask prices or at all if shareholders desire to liquidate shares.

The shares of our common stock are thinly-traded on the OTC Bulletin Board, meaning that the number of persons interested in purchasing our common shares at or near ask prices at any given time may be relatively small. This situation is attributable to a number of factors, including the fact that we are a small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an early stage company or purchase or recommend the purchase of any of our securities until such time as we became more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our securities is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on our securities price. We cannot give you any assurance that a broader or more active public trading market for our common securities will be sustained. Due to these conditions, we can give investors no assurance that they will be able to sell their shares at or near ask prices or at all if their desire to liquidate their securities of our Company.

Two Rivers' stock may be thinly traded and as a result shareholders may be unable to sell at or near ask prices or at all if shareholders desire to liquidate shares.

The shares of Two Rivers' common stock are thinly-traded on the OTC Bulletin Board, meaning that the number of persons interested in purchasing our common shares at or near ask prices at any given time may be relatively small. This situation is attributable to a number of factors, including the fact that Two Rivers is a small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if Two Rivers came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an early stage company or purchase or recommend the purchase of any of our Securities until such time as Two Rivers became more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our Securities is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on Two Rivers' Securities price. Two Rivers cannot give you any assurance that a broader or more active public trading market for our common Securities will be sustained. Due to these conditions, Two Rivers can give investors no assurance that they will be able to sell their shares at or near ask prices or at all if their desire to liquidate their Securities of Two Rivers.

Item 1B. UNRESOLVED STAFF COMMENTS

None

Two Rivers Water Company

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ITEM 2. DESCRIPTION OF PROPERTIES

Corporate Offices

In February 2008, Two Rivers, along with its subsidiary Northsight, opened offices at 2000 S. Colorado Blvd, Annex Suite 200, Denver, Colorado 80222. The lease for this office is approximately \$4,701 per month. The lease has a remaining term of approximately 12 months.

Field Office

Two Rivers also has offices located in Walsenburg Colorado. The lease for this facility has a current lease rate of \$600 per month through August 31, 2010 and then continues month-to-month.

Legendary Investments LLC Offices

Legendary has offices located at 7411 E. 6th Avenue, Ste. 206, Scottsdale, Arizona. The lease for this facility has a current lease rate of approximately \$1,000 per month through July 31, 2012.

ITEM 3. LEGAL PROCEEDINGS

Carson Litigation

Northsight is a defendant in a lawsuit filed on April 2, 2008 in Jackson County Circuit Court in Missouri whereby a Northsight bridge loan borrower, Lydia Carson (a co-defendant), is being sued by the former owners of a property for failure to pay the balance of a note made by the borrower to purchase the property from the plaintiffs, Devoe. On December 31, 2009, the amount owed by Lydia Carson to the Company is \$253,000 (note balance of \$315,000 less escrow held of \$62,000) of which the Company has set up an allowance of \$146,000 against the balance of \$253,000. This case was presented in a trial by jury on January 25, 2010 but the court has not yet issued its judgment. It is management's position that the Company will prevail as the first lien holder.

Morrow Litigation

The Company was notified in September, 2009 that it was named as a defendant in a lawsuit that alleges either the Company or another third party bank did not have a proper promissory note and deed of trust against a short-term mortgage loan made to a borrower in April, 2008 ("Morrow" loan and suit). After the Morrow loan was made by the Company, Northsight assigned the loan to Jaguar with the anticipation of receiving funding of the loan by Jaguar. Jaguar never funded the Company for the loan and on August 4, 2008, Jaguar re-assigned the note and deed of trust back to the Company. However, Jaguar never returned to the Company the original lending file and documentation. During the period of time that Jaguar was in possession of the Morrow file, the lawsuit alleges that Jaguar used the Morrow note and deed of trust to obtain money from another third-party bank.

Morrow sold the property representing the security interest via the deed of trust in the note in February 2009. Closing occurred through a title company with title insurance issued. At the closing, the Company received \$77,000 as payoff on the Morrow note. Therefore, the other third party bank did not receive any proceeds. Presently the third party bank is suing the current owner of the property that Morrow sold for payment on the note. The property owner has filed a complaint in State of Colorado, Adam County District Court naming Northsight and the third party bank as defendants.

The Company believes it properly received the proceeds and is being represented by legal counsel to defend its position.

There are no other legal actions that name the Company and/or its officers and directors as defendants.

ITEM 4. REMOVED AND RESERVED

Two Rivers Water Company

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PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Price Range of Common Stock

The Company's common stock is presently traded on the over-the-counter market on the OTC Bulletin Board maintained by the Financial Industry Regulatory Authority ("FINRA"). On September 17, 2007, our common stock began trading on the over-the-counter bulletin board. The current NASDAQ symbol for the common stock is "TURV." Prior to January 15, 2010, our common stock traded under the symbol "NVDF."

The following table sets forth the range of high and low bid quotations for the common stock of each full quarterly period during the years ended December 31, 2009 and 2008. The quotations were obtained from information published by the FINRA and reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

| Quarter Ended | High | Low |
|----------------------------|---------|---------|
| 2009 | | |
| December 31 st | \$2.05 | \$1.00 |
| September 30 th | \$1.53 | \$0.45 |
| June 30 th | \$0.75 | \$0.32 |
| March 31 st | \$0.85 | \$0.32 |
| 2008 | | |
| December 31 st | \$ 1.00 | \$ 0.70 |
| September 30 th | \$ 2.00 | \$ 0.72 |
| June 30 th | \$ 1.65 | \$ 1.42 |
| March 31 st | \$ 1.74 | \$ 1.01 |

As of December 31, 2009, there were 237 shareholders of record. We estimate that there are approximately 1,000 beneficial shareholders. In many instances, a registered stockholder is a broker or other entity holding shares in street name for one or more customers who beneficially own the shares.

Our transfer agent is Computershare, 350 Indiana Street, Suite 800, Golden, Colorado 80401. The telephone number is 303-262-0710.

Dividends

As of the filing of this annual report, we have not paid any cash or stock dividends to shareholders. There are no restrictions which would limit our ability to pay dividends on common equity or that are likely to do so in the future. The Colorado Revised Statutes, however, do prohibit us from declaring dividends where, after giving effect to the distribution of the dividend; we would not be able to pay our debts as they become due in the usual course of business; or our total assets would be less than the sum of the total liabilities plus the amount that would be needed to satisfy the rights of shareholders who have preferential rights superior to those receiving the distribution.

Penny Stock

Penny Stock Regulation Broker-dealer practices in connection with transactions in "penny stocks" are regulated by certain penny stock rules adopted by the Securities and Exchange Commission. Penny stocks generally are equity securities with a price of less than \$5.00. Excluded from the penny stock designation are securities registered on certain national securities exchanges or quoted on NASDAQ, provided that current price and volume information with respect to transactions in such securities is provided by the exchange/system or sold to established customers or accredited investors.

Two Rivers Water Company

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The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in connection with the transaction, and the monthly account statements showing the market value of each penny stock held in the customer's account. In addition, the penny stock rules generally require that prior to a transaction in a penny stock; the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction.

These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for a stock that becomes subject to the penny stock rules. As our securities have become subject to the penny stock rules, investors may find it more difficult to sell their securities.

Annual Shareholders' Meeting

On November 19, 2009, the Company held its Annual Shareholders' Meeting at its offices at 2000 South Colorado Blvd, Annex Suite 200 in Denver, Colorado. The shares necessary for a quorum were present at the meeting and the following proposals were voted on and passed.

| Item | For | Against | Abstain | Non-Votes |
|---------------------------|-----------|---------|---------|-----------|
| Board of Directors | | | | |
| John McKowen | 7,078,223 | 23,420 | 999 | 0 |
| Jolee R. Henry | 7,090,528 | 11,115 | 999 | 0 |
| Wayne Harding, III | 7,087,815 | 14,601 | 226 | 0 |
| Fred Jones | 7,087,532 | 14,348 | 762 | 0 |
| John Stroh, II | 7,087,876 | 14,303 | 463 | 0 |
| Auditors Approval | 7,099,015 | 2,947 | 680 | 0 |
| Change Company Name | 7,093,311 | 8,932 | 399 | 0 |
| Amendment to Articles | 4,956,427 | 3,473 | 182 | 2,142,560 |

The following items were approved at the Shareholders' Meeting:

- Messrs. John McKowen, Wayne Harding, III, Fred Jones, John Stroh, II and Ms. Jolee R. Henry were elected to the Board of Directors to serve until the next annual meeting of the Shareholders.
- The Company's auditors, Schumacher and Associates, Inc. of Denver, Colorado were approved.
- The Company's name change to Two Rivers Water Company.

The Company's Articles of Incorporation will be amended to include the ability to shareholder action by written consent of the shareholders. Specifically, "any action required or permitted by Colorado Revised Statutes to be taken at a shareholder meeting may be taken without a meeting, if the shareholders holding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all of the shares entitled to vote thereon were present and voted, consent to such action in writing. Effectiveness of such action shall be as provided in Colorado Revised Statutes except when the requirements of Section 14 of the Securities Exchange Act of 1934 specify otherwise. Record date for determining shareholders entitled to take action, or entitled to be given notice under CRS 7-107-104 (as it may be amended) is the date the corporation first receives a writing upon which the action is taken pursuant to written consent of a majority of shareholders."

Two Rivers Water Company

During the year ended December 31, 2009, other than the above proposals, no other matters were submitted to the Company's shareholders for approval.

Recent Sales of Unregistered Securities

We made the following unregistered sales of our securities from January 1, 2009 through December 31, 2009:

| <u>DATE OF SALE</u> | <u>TITLE OF SECURITIES</u> | <u>NO. OF SHARES</u> | <u>CONSIDERATION</u> | <u>CLASS OF PURCHASER</u> |
|---------------------|--------------------------------|----------------------|----------------------|-------------------------------|
| Nov 24, 2009 | Common | 200,000 | \$10,000 | Common |

Exemption From Registration Claimed

All of the sales by us of our unregistered securities were made in reliance upon Section 4(2) of the Securities Act of 1933, as amended (the "1933 Act"). The entity listed above that purchased the unregistered securities was an existing shareholder, known to us and our management, through pre-existing business relationships, as a long standing business associate. The entity was provided access to all material information, which it requested, and all information necessary to verify such information and was afforded access to our management in connection with the purchases. The purchaser of the unregistered securities acquired such securities for investment and not with a view toward distribution, acknowledging such intent to us. All certificates or agreements representing such securities that were issued contained restrictive legends, prohibiting further transfer of the certificates or agreements representing such securities, without such securities either being first registered or otherwise exempt from registration in any further resale or disposition.

Recent Issuance of Options

We made no issuance of options from January 1, 2009 through December 31, 2009.

Purchases of Equity Securities by the Small Business Issuer and Affiliated Purchasers

Not applicable.

ITEM 6. SELECTED FINANCIAL INFORMATION

Not applicable.

Two Rivers Water Company

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto and the other financial information included elsewhere in this report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward looking statements as a result of any number of factors, including those set forth under "Risk Factors" on page 6 and elsewhere in this report.

Plan of Operations - Overview

During 2009, Two Rivers focused its business development activities on winding down its real estate activities through its subsidiaries Northsight and Southie. With funds generated from the liquidation of real estate promissory notes receivable and selling residential real estate, Two Rivers entered into the Water Business beginning in July 2009 and has dedicated the majority of its resources to expanding the Water Business. There can be no assurances that any of our investments will be successful. (See Risk Factors beginning on Page 6.)

The Thomas Park project in South Boston (with an anticipated additional expenditure of \$250,000) is ready for sale and is listed for a gross selling price of \$2,567,000.

As of December 31, 2009, we have \$1,042,000 in real estate owned (net, after an impairment of \$313,000 and depreciation of \$40,000). It is management's intent to liquidate all of this property during 2010 which also includes the Thomas Park property. During this liquidation, we do not anticipate any additional material expenses to be incurred. If the property is held in Southie, proceeds from liquidation will be transferred to Two Rivers as a reduction of the intercompany debt that Southie and Northsight owe to the parent company. Management expects to have the liquidation of real estate owned and mortgage notes receivable held completed by December 31, 2010.

The Company intends to focus its entire efforts on the development of the Water Business and other related businesses. Therefore, the Company is winding down and disposing of its other businesses. The Company is in the process of completing the purchase of the remaining outstanding shares that it does not own of the Mutual Ditch Company and additional land which would assist in perfecting water rights and provide additional water resources. As of December 31, HCIC had an 18% ownership in the Mutual Ditch Company. As of March 1, 2010, HCIC owned 59% of the Mutual Ditch Company.

In August 2009, the Board authorized a private placement at \$1.50/share of the Company's restricted common stock. This offering raised \$150,000 selling 150,000 shares of the Company's stock. After this offering, the Board approved an engagement letter whereby a broker/dealer offered a private placement of the Company's restricted common stock at \$2.00/share. The broker/dealer did not place any of the offering. Due to this inactivity, the Board approved a new private placement effective January 5, 2010 to offer the Company's restricted common stock at \$1.00/share. The maximum offering is 5,000,000 shares, no minimum, and the offering expires February 28, 2010, and subsequently extended by the Board to March 31, 2010. There can be no assurances that the Company will be able to raise funds under its current private placement.

In addition, the United States and the global business community is experiencing severe instability in the commercial and investment banking systems which is likely to continue to have far-reaching effects on the economic activity in the country for an indeterminable period. The short term impact is the reduction of credit, the inability of many borrowers to acquire adequate financing, reduction in work forces and possibly the continued decrease in housing prices. These market adjustments could cause a further erosion in our collateral against our short term mortgage loans and erosion of the market value of the real estate we own.

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The long-term impact on the United States economy and the Company's operating activities and ability to raise capital cannot be predicted at this time, but may be substantial.

Results of Operations *For the Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008*

Our revenues are a result of the activities of Northsight as a mortgage broker and Two Rivers as it liquidates real estate owned and sells its existing real estate projects. For the first six months of 2008, Northsight acted as both a broker and banker, with Northsight's source of funds coming from Two Rivers. Northsight paid interest on the funds that Two Rivers advanced. Beginning in July 2008, Two Rivers purchased the short term mortgage notes back from Northsight in exchange for the amount owed by Northsight to Two Rivers.

During the year ended December 31, 2009, we recognized revenues from continuing operations of \$145,000, compared to \$314,000 in revenues from continuing operations during the year ended December 31, 2008, from operations in the mortgage industry and real estate. The decrease of \$169,000 was primarily a result of reduction in real estate loans held by the Company. Cost of delivering our real estate related services from continuing operations (our cost of sales) was \$89,000 for the year ended December 31, 2009 compared to no costs for the year ended December 31, 2008. The increase of \$89,000 was a result of increase in activity in the real estate brokerage and management through Legendary.

Interest revenues decreased from \$313,000 during the year ended December 31, 2008 to \$43,000 during the year ended December 31, 2009. This decrease of \$270,000 was a result of a decrease during 2009 of the short term mortgage notes outstanding.

During the year ended December 31, 2009, operating expenses from continuing operations were \$1,730,000 compared to \$1,325,000 for the year ended December 31, 2008. The increase of \$405,000 was primarily a result of expenses related to the Water Business. These figures produced a loss from continuing operations of \$1,674,000 for the year ended December 31, 2009 compared to a loss from operations of \$1,011,000 for the year ended December 31, 2008.

During the year ended December 31, 2009, we recognized a net gain on the sale of investments of \$33,000 compared to \$5,581,000 for the year ended December 31, 2008. The large gain from 2008 was from the sale of our investment in BPZ.

During the year ended December 31, 2008, the Company filed a lawsuit to collect on a note receivable payable by Jaguar Group, LLC and Welend Associated Group ("Jaguar") and additional advances made by the Company to Jaguar. The note was for \$1,100,000 and the additional receivables were for \$307,000. During 2008, the Company received a default judgment against Jaguar Group LLC and John Reinholdt Jr. (a principal in Jaguar) for \$3,107,000. Management is pursuing the collection of this judgment. However, no assurance can be made of collecting any of this judgment. Therefore, Management has established an allowance for the full amount of this debt and receivable for \$1,407,000 as of December 31, 2008 and 2009. During the year ending December 31, 2009, the Company was successful in collecting \$13,000 against the Jaguar Judgment. The amount was recognized as revenue.

During the year ended December 31, 2009, we recognized a net loss from both continuing and discontinued operations of \$2,925,000 compared to a net income of \$182,000 during the year ended December 31, 2008. The resulting decrease of \$3,107,000 in net income was a result of the \$5,581,000 gain on sale of investments offset by \$2,752,000 allowance for impairment against short term notes receivable, real estate owned and the Jaguar note and receivable combined with the \$734,000 (before tax credit of \$170,000) increase in operational losses as we built Northsight in 2008 for expansion into the mortgage market.

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LIQUIDITY

From the Company's inception through December 31, 2009, we have funded our operations primarily from the following sources:

- Equity proceeds through private placements of Two Rivers securities;
- Revenue generated from operations;
- Loans and lines of credit;
- Sales of residential properties acquired through deed-in-lieu actions;
- Sales of equity investments, and
- Proceeds from the exercise of legacy Navidec, Inc. Options

Cash flow from operations has not historically been sufficient to sustain our operations without the above additional sources of capital. As of December 31, 2009, the Company had cash and cash equivalents of \$616,000. Cash flow consumed by our operating activities totaled \$1,922,000 for the year ended December 31, 2009 compared to operating activities consuming \$6,866,000 for the year ended December 31, 2008.

As of December 31, 2009, the Company had \$1,757,000 in current assets and \$1,266,000 in current liabilities. The Company intends to continue with its strategy of liquidating its real estate assets to expand their Water Business and on its current private placement of its restricted common shares in order to provide additional capital to be used in the support of its operations.

Cash flows used by our investing activities for the year ended December 31, 2009 were \$136,000 compared to \$5,232,000 provided for the year ended December 31, 2008. In the year ended December 31, 2009 we used proceeds of \$2,710,000 from the sale of our real estate owned ("REO") to fund our Water Business, which included \$2,711,000 for the purchase of land and water shares and \$163,000 for engineering work for the dam reconstruction.

For the year ended December 31, 2008 from investing activities we generated a net of \$6,848,000 (\$8,120,000 proceeds less \$1,272,000 used for purchases) from proceeds of marketable securities which were largely attributable to our sale of BPZ stock. Also during 2008, we invested \$1,529,000 in our Thomas Park (South Boston) real estate project and purchased fixed assets of \$96,000.

Net cash produced in financing activities was \$1,800,000 for the year ended December 31, 2009 compared to a production of cash of \$1,101,000 for the year ended December 31, 2008. During 2009 we increased our long-term borrowings by \$2,175,000 through owner financing of the water and land purchase for the Water Business, paid down \$441,000 in real estate loans, received \$10,000 from the exercise of stock options, sold \$150,000 in the Company's common stock in a private placement and retired \$94,000 of our common stock through open market purchases.

Subsequent to December 31, 2009 and through March 23, 2010, the Company has sold \$1,260,000 in its current private placement, representing 1,260,000 common stock shares to be issued. The Board also approved the issuance of an additional 500,000 shares valued at \$1.00 per share for the purchase of water shares and associated land along with approval to issue 7,500,000 to obtain full ownership of HCIC and restricted stock unit grant of 2,400,000 shares to key executives and board members

For the year ended December 31, 2008 from financing activities we generated \$1,101,000 in cash largely from the increase in borrowings.

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CRITICAL ACCOUNTING POLICIES

Two Rivers has identified the policies below as critical to Two Rivers' business operations and the understanding of Two Rivers results from operations. The impact and any associated risks related to these policies on the Company's business operations is discussed throughout Management's Discussion and Analysis of Financial Conditions and Results of Operations where such policies affect Two Rivers reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see Note 2 in the Notes to the Consolidated Financial Statements beginning on page [INSERT PAGE NUMBER] of this document. Note that the Company's preparation of this document requires Two Rivers to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of Two Rivers' financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

REVENUE RECOGNITION

Two Rivers follows very specific and detailed guidelines in measuring revenue; however, certain judgments may affect the application of Two Rivers' revenue policy. Revenue results are difficult to predict, and any shortfall in revenue or delay in recognizing revenue could cause Two Rivers' operating results to vary significantly from quarter to quarter and could result in future operating losses.

REVENUES BUSINESS DEVELOPMENT SERVICES

Revenue from Two Rivers' business development services is generally derived from time and materials contracts and is recognized as the work is completed. Revenue recognition for time and materials contracts is not significantly impacted by judgments and estimates. Within the business development division a small amount of the work is performed based on fixed price agreements. When this occurs the projects are generally of a short duration and revenue is recognized when the project is completed.

REVENUES FROM MORTGAGE SERVICES

Revenues from mortgage brokerage operations are generally related to transaction-based fees and are recognized at the consummation of the transactions, generally when mortgage transactions close. ASC 310 (Receivables) requires that fees collected by a mortgage banking entity be amortized over the expected life of the loan. In our case, this is generally 90 days.

ALLOWANCE FOR BAD DEBT

Two Rivers' policy on allowances for bad debt determines the timing and recognition of expenses. The Company follows guidelines that establish allowances based off of historical and account specific trends; however, certain judgments affect the application of Two Rivers' bad debt allowance policy. Two Rivers receivables are recorded net of an allowance for doubtful accounts which requires management to estimate amounts due which may not be collected. This estimate requires consideration of general economic conditions, overall historical trends related to the Company's collection of receivables, customer specific payment history, and customer specific factors affecting their ability to pay amounts due. Management routinely assesses and revises its estimate of the allowance for doubtful accounts. As of year ended December 31, 2009, we had \$2,948,000 allowances for bad debt and valuation impairments, as follows:

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| Allowance for: | Amount |
|----------------------------------|---------------------|
| Short Term Mortgages | \$ 139,000 |
| Jaguar Note Receivable | 1,407,000 |
| Mauriello Note Receivable | 151,000 |
| Boston Property – Thomas Park | 889,000 |
| Real Estate owned – depreciation | 49,000 |
| Real Estate owned – impairments | 313,000 |
| Total | <u>\$ 2,948,000</u> |

GOODWILL AND INTANGIBLE ASSETS

As of December 31, 2008, Two Rivers did not carry any intangible assets or goodwill on its books.

During the year ended 2009 and subsequently, the Company has acquired water shares in the Mutual Ditch Company, which is considered an intangible asset. Currently, the water shares are recorded at purchase price. Management evaluates the carrying value, and if necessary, will establish an impairment of value to reflect current fair market value. Currently, there are no impairments on the land and water shares.

Under the terms of the HCIC joint venture, the non-related party owning 50% of HCIC, TRB, contributed options on purchasing the Mutual Ditch Company along with purchase agreements for acquiring land. TRB also contributed cash being held in escrow or that had been paid to owners of the shares of the Mutual Ditch Company. The Company valued the TRB's contribution to HCIC at \$2,850,000.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Two Rivers is exposed to the impact of interest rate changes and change in the market values of the Company's investments. Based on Two Rivers' market risk sensitive instruments outstanding as of December 31, 2009, as described below, it has determined that there was no material market risk exposure to the Company's consolidated financial position, results of operations, or cash flows as of such date. Two Rivers does not enter into derivatives or other financial instruments for trading or speculative purposes.

INTEREST RATE RISK

At December 31, 2009, the Company's exposure to market rate risk for changes in interest rates relates primarily to its borrowings, as well as, its mortgage services business. Two Rivers has not used derivative financial instruments in its credit facilities. A hypothetical 10% increase in the Prime Rate would not be significant to the Company's financial position, results of operations, or cash flows.

IMPAIRMENT POLICY

At least once every quarter, Two Rivers examines all of their assets for proper valuation and to determine if an allowance for impairment is necessary. In terms of real estate owned, this impairment examination also includes the accumulated depreciation. Management examines market valuations and if an additional impairment is necessary for lower of cost or market, then impairment is booked. However, if Management, based on changes in the market value of the assets, determines the impairment to be over stated, the existing impairment is reduced to reflect management's new estimate of value.

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INVESTMENT RISK

From time to time Two Rivers has made investments in equity instruments in companies for business and strategic purposes. These investments, when held, are included in other long-term assets and are accounted for under the cost method since ownership is less than 20% and Two Rivers does not assert significant influence.

INFLATION

Two Rivers does not believe that inflation will have a material impact on its future operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to the impact of interest rate changes and change in the market values of our real estate properties. Based on our market risk sensitive instruments outstanding as of December 31, 2009, as described below, it was determined that there was no material market risk exposure to our consolidated financial position, results of operations, or cash flows as of such date. We do not enter into derivatives or other financial instruments for trading or speculative purposes.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Report of the Independent Registered Accounting Firm appears on Page [INSERT PAGE NUMBER] and the Consolidated Financial Statements and Notes to Consolidated Financial Statements appearing at Pages [INSERT PAGE NUMBER] through [INSERT PAGE NUMBER] hereof are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosures Controls and Procedures

We have adopted and maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") that are designed to ensure that information required to be disclosed in our reports under the Exchange Act, is recorded, processed, summarized and reported within the time periods required under the SEC's rules and forms and that the information is gathered and communicated to our management, including our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), as appropriate, to allow for timely decisions regarding required disclosure.

As required by SEC Rule 15d-15(b), Mr. John McKowen, our Chief Executive Officer and Mr. Wayne Harding, our Chief Financial Officer carried out an evaluation under the supervision and with the participation of our management, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 15d-14 as of the end of the period covered by this report.

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The Company, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Chief Financial Officer, performed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2009. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, because of the material weakness in internal control over financial reporting described below, the Company's disclosure controls and procedures were not effective as of December 31, 2009.

ITEM 9A(T). CONTROLS AND PROCEDURES

Management's Annual Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the company in accordance with as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made on in accordance with authorizations of our management and directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management's assessment of the effectiveness of the small business issuer's internal control over financial reporting as of the year ended December 31, 2009, is that we believe that internal control over financial reporting has not been effective, and we are in the process of improving controls. We have identified certain material weaknesses of accounting relating to a shortage of accounting and reporting personnel due to limited financial resources and the size of our Company. This material weakness can lead to the following:

- An inability to ensure there is timely analysis and review of accounting records, spreadsheets, and supporting data; and
- an inability to effectively monitor access to, or maintain effective controls over changes to, certain financial application programs and related data.

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Considering the nature and extent of our current operations and any risks or errors in financial reporting under current operations and the fact that we have been a small business with limited employees caused a weakness in internal controls involving the areas disclosed above.

In 2008, we hired a full time in-house Certified Public Accountant, who, as of September 2009, became our Chief Financial Officer and have taken the following steps:

- we have authorized the addition of additional staff members to the finance department to ensure that there are sufficient resources within the department to prepare our financial statements and disclosures in accordance with accounting principles generally accepted in the United States of America; and
- we are in the process of analyzing our processes for all business units and the establishment of formal policies and procedures with necessary segregation of duties, which will establish mitigating controls to compensate for the risk due to lack of segregation of duties.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the SEC that permit the Company to provide only management's report in this annual report.

There was no change in our internal control over financial reporting that occurred during the fiscal year ended December 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS AND CORPORATE GOVERNANCE; COMPLIANCE WITH SECTION 16 (a) OF THE EXCHANGE ACT

At December 31, 2009, our officers and directors were the individuals listed below:

| | Age | Position | Term |
|---------------|-----|--|--------|
| John McKowen | 60 | Chief Executive Officer, Chief Financial Officer, Chairman of the Board of Directors | Annual |
| Wayne Harding | 55 | Chief Financial Officer, Secretary, Director | Annual |
| John Stroh II | 62 | President of TRWC, Director | Annual |
| Fred Jones | 64 | Director | Annual |
| Jolee Henry | 54 | Director | Annual |

Two Rivers officers are elected by the board of directors at the first meeting after each annual meeting of Two Rivers shareholders and hold office until their successors are duly elected and qualified under Two Rivers bylaws.

The directors named above will serve until the next annual meeting of the Company's stockholders. Thereafter, directors will be elected for one-year terms at the annual stockholders' meeting. Officers will hold their positions at the pleasure of the board of directors absent any employment agreement. There is no arrangement or understanding between the directors and officers of the Company and any other person pursuant to which any director or officer was or is to be selected as a director or officer.

The directors and officers of the Company will devote such time to the Company's affairs on an "as needed" basis. As a result, the actual amount of time, which they will devote to the Company's affairs is unknown and is likely to vary substantially from month to month.

BIOGRAPHICAL INFORMATION

Management will devote minimal time to the operations of the Company, and any time spent will be devoted to screening and assessing and, if warranted, negotiating to acquire business opportunities.

JOHN R. MCKOWEN. Mr. McKowen has served as the Chief Executive Officer and a Director and Chairman of the Board of the Company since the Company was founded in December 2002. Mr. McKowen also served as President and Chief Executive Officer of Navidec, Inc. from August 2003 to September 2004 and served as a director of Navidec, Inc., now BPZ, from December 2002 to May 2005. Mr. McKowen was hired by Navidec, Inc. as a financial consultant in 1996 and was involved in the private, public and secondary financing of Navidec, Inc. He served as a financial consultant to Navidec, Inc. until March 1999. Mr. McKowen began his career in the financial services industry 1978. In 1984 Mr. McKowen began working as an independent consultant and has worked in that capacity for the last 23 years. Mr. McKowen received a B.A. in economics from Metropolitan State College.

WAYNE E. HARDING, III. Mr. Harding has worked with Two Rivers as a controller and handling of its SEC filings since July 28, 2008. On September 11, 2009, Mr. Harding was appointed the Chief Financial Officer and Secretary of Two Rivers. Mr. Harding served on the board of directors, chair of the governance, compensations and audit committees for Aerogrow International (a public company based in Boulder Colorado USA, OTC: AERO) from 2005 – 2007. He has served as vice president business development of Rivet Software since December 2004. From August 2002 to December 2004 Mr. Harding was owner and President of Wayne Harding & Company CPAs and from 2000 until August 2002 he was director-business development of CPA2Biz.

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Mr. Harding holds an active CPA license in Colorado and received his BS and MBA degrees from the University of Denver, where he currently serves on the School of Accountancy Advisory Board and head of the Academic Excellence Committee. Mr. Harding also teaches in the University of Denver MBA program on accounting issues. He is also past-President of the Colorado Society of CPAs.

JOHN STROH II. Mr. Stroh received his Bachelor of Science in Business Administration from Colorado State University in 1976. In 1991, he passed the Colorado state Certified Appraiser exam. He received his real estate broker license in the State of Colorado in 1976. Mr. Stroh has been a real estate broker since he received his broker license in 1976. He is the owner/managing broker of Southern Colorado Land and Livestock Company, a real estate management, appraisal, consulting, and brokerage firm.

Mr. Stroh is also an instructor for the Trinidad State Junior College. He teaches real estate courses including water law, broker courses, and mandatory fair housing courses.

Mr. Stroh is Secretary of the Lower Cucharas Water Users Association and Secretary of the Holita Ditch and Reservoir Companies and Secretary of the Walsenburg Ditch Company. He is also Chairperson of the Sangre de Cristo Habitat Partnership Program Committee.

FRED JONES. Mr. Jones is the co-Manager of HCIC Holdings, LLC. Mr. Jones has over forty years working in the railroad industry, with the exception of military service. He has held various positions to include Chairman of the Board of Colorado Kansas & Pacific (2000 to 2003) a short line railroad in Southern Colorado, and C.E.O. of I.T.S. Inc., a consulting and development firm. Mr. Jones began his railroad career in 1964 at the Rio Grande Railroad, which merged with the Southern Pacific and later the Union Pacific. He retired from Union Pacific in September 2000 as Senior Manager of Train Operations. After retirement from the Union Pacific, Mr. Jones worked on a variety of projects including the establishment of two railroads, a rock quarry, and several investment decisions by major investment houses, as a consultant for the Gerson Lehrman Group. He is also experienced in working with government agencies including the Federal Railroad Administration and the Federal Aviation Administration.

JOLEE R. HENRY. Effective July 1, 2008, Mrs. Henry was appointed a director of the Company. She was voted to an annual term at the November 2008 Shareholder meeting. Ms. Henry serves as a Director of the Company. Ms. Henry was previously married to John R. McKowen, the CEO and President of the Company. Ms. Henry currently is a licensed therapist in the State of Colorado and nationally. Ms. Henry has founded, developed and operated or sold three separate startup companies. From 1984 to 1991, Ms. Henry founded and operated a company called Jules's Books, which was the first children's book publisher to create and nationally distribute pre-reading plasticized children's natural history picture books to museums and other public history outlets. From 1989 to 1996, Ms. Henry founded and operated a company called Forever Pesto which created, manufactured and nationally distributed proprietary pesto products to sales outlets like City Markets, Vaughn's, Safeway and Dean & DeLuca. In 1995, Ms. Henry developed, obtained a provisional patent and sold a natural zinc lollipop concept called Zinky-Pop. Ms. Henry currently holds an active real estate license from the State of Colorado.

Ms. Henry earned a BA from Arizona State University, 1977 and a Master's Degree from the University of Northern Colorado, 2001. Both degrees are in Psychology and Community Counseling.

Ms. Henry currently is a member of the National Board of Certified Counselors, the Colorado Association for Psychotherapists, Association for Death Education and Counseling, Hospice of Metro Denver, the American Society of Clinical Hypnosis, the National Board of Certified Clinical Hypnotherapist, and the American Counseling Association.

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COMMITTEE OF THE BOARD OF DIRECTORS

We are managed under the direction of our board of directors. Two Rivers's board of directors also acts as the audit committee with Mr. McKowen acting as the chair.

CONFLICTS OF INTEREST - GENERAL

Our directors and officers are, or may become, in their individual capacities, officers, directors, controlling shareholder and/or partners of other entities engaged in a variety of businesses. Thus, there exist potential conflicts of interest including, among other things, time, efforts and corporation opportunity, involved in participation with such other business entities. While each officer and director of our business is engaged in business activities outside of our business, they devote to our business such time as they believe to be necessary.

CONFLICTS OF INTEREST - CORPORATE OPPORTUNITIES

Presently no requirement is contained in our Articles of Incorporation, Bylaws, or minutes which require officers and directors of our business to disclose to us business opportunities which come to their attention. Our officers and directors do, however, have a fiduciary duty of loyalty to us to disclose to us any business opportunities which come to their attention, in their capacity as an officer and/or director or otherwise. Excluded from this duty would be opportunities which the person learns about through his involvement as an officer and director of another company. We have no intention of merging with or acquiring an affiliate, associate person or business opportunity from any affiliate or any client of any such person.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act requires our Officers and Directors, and persons who own more than 10% of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC. Officers, directors and greater than 10% shareholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of copies of such reports received, and representations from certain reporting persons, we believe that, during the fiscal year ended December 31, 2009, all of the Section 16(a) filing requirements applicable to our officers, directors and greater than 10% beneficial owners were filed in compliance with all applicable requirements.

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ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth certain information concerning compensation paid by the Company to the President and the Company's two most highly compensated executive officers for the fiscal year ended December 31, 2009, 2008 and 2007 (the "Named Executive Officers"):

SUMMARY EXECUTIVE COMPENSATION TABLE

| Name & Position | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$) | Option Awards (\$) | Non-equity incentive plan comp (\$) | Non-qualified deferred comp earnings (\$) | All other comp (\$) | Total (\$) |
|--------------------------------|---------|-------------|------------|-------------------|--------------------|-------------------------------------|---|---------------------|------------|
| John McKowen, CEO, Chairman | 2009(1) | 241,484 | 27,500 | 0 | 0 | 0 | 0 | 7,476 | 276,460 |
| | 2008(2) | 270,833 | 0 | 0 | 0 | 0 | 0 | 45,779 | 316,612 |
| | 2007(3) | 156,000 | 100,000 | 0 | 0 | 0 | 0 | 0 | 256,000 |
| Wayne Harding, CFO & Secretary | 2009(4) | 95,423 | 6,250 | 0 | 0 | 0 | 0 | 23,069 | 124,742 |
| | 2008(5) | 0 | 0 | 0 | 140,330 | 0 | 0 | 0 | 140,330 |
| | 2007 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| John Stroh, President | 2009(6) | 0 | 0 | 0 | 0 | 0 | 0 | 63,192 | 63,192 |

(1) Other Compensation is the payment of the health insurance benefit by the Company (\$7,476).

(2) Other Compensation is the payment of the health insurance benefit by the Company (\$11,765); auto allowance (\$13,014), and office reimbursement (\$21,000).

(3) During the year ended December 31, 2007, Mr. McKowen received a cash bonus of \$100,000, which was offset against advances of \$5,372 owed to the Company. He received a net amount of \$94,638 before taxes.

(4) Salary and bonus is the amount for the entire year ending December 31, 2009. Mr. Harding did not become an officer of the Company until September 2009 and did not become a director of the Company until November 2009. Other Compensation is the payment of dental and health insurance benefit (\$23,069).

(5) Mr. Harding's options were granted on July 28, 2008. A black-shoals computation indicated \$140,330 value upon grant. At the time of grant, Mr. Harding was not an officer or director of the Company. Mr. Harding became the CFO and Secretary of the Company in September, 2009. He options are exercisable for 200,000 shares at \$2.00/share and have a term of 10 years.

(6) Mr. Stroh became the President of TRWC, Inc. in August, 2009. He is paid via a contract labor agreement. In 2009, Mr. Stroh was paid \$61,840 in contract labor and \$1,352 in health and dental insurance premiums.

Employment Agreements

The Company's Board does not have a separate compensation committee; therefore compensation for the Company's officers and directors are determined by the entire Board.

All in-place employment agreements provides for accelerated option vesting. Change in control is defined as the sale or other disposition to a person, entity or group of 50% or more of the consolidated assets of the Company taken as a whole.

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On September 9, 2004, (and amended on June 15, 2005) the Company entered into an employment agreement with John McKowen, as President and CEO. The initial term of the contract was two years, which renews automatically for successive one year terms unless and until either party delivers notice of termination within 30 days of the expiration of the then current term.

On November 1, 2008, the Company entered into an employment agreement with Wayne Harding. The initial term of the contract was one year, which renews automatically for successive one year terms unless and until either party delivers notice of termination within 30 days of the expiration of the then current term.

During the year ended December 31 2009, no changes in Mr. McKowen's pay were made. The existing employment agreement with Wayne Harding was amended to increase his base compensation to \$108,000 per year effective September 1, 2009.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

The following table sets forth certain information concerning outstanding equity awards held by the President and our most highly compensated executive officers for the fiscal year ended December 31, 2009 (the "Named Executive Officers"):

| | | | Equity incentive plan awards: No. of securities underly-ing unexercised options (#) | Option exercise price (\$) | Option expir-ation date | No. of shares or units of stock that have not vested (#) | Market Value of shares or units of stock that have not vested (\$) | Equity incentive plan awards: no. of shares, units or other rights that have not vested (#) | Equity incentive plan awards; Market or payout value of shares, units or other rights that have not vested (\$) |
|-----------------------------|-----------|--------|---|----------------------------------|-------------------------------|---|--|--|--|
| John McKowen, CEO | 1,480,948 | 0 | 0 | \$1.25 | 7/11/16 | 0 | 0 | 0 | 0 |
| John Stroh II, President | 0 | 0 | 0 | N/A | N/A | N/A | N/A | N/A | N/A |
| Wayne Harding, CFO | 200,000 | 66,667 | 0 | \$2.00 | 7/28/18 | 133,333 | 173,333 | 0 | 0 |

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DIRECTOR COMPENSATION

The following table sets forth certain information concerning compensation paid to our directors for services as directors, but not including compensation for services as officers reported in the "Summary Executives Compensation Table" during the year ended December 31, 2009:

| Name | Fees earned or paid in cash (\$) | Stock awards (\$) | Option Awards (\$) | Non-equity incentive plan compen- sation (\$) | Non- Qualified Deferred compen- sation earnings (\$) | All other compen-sation (\$) | Total (\$) |
|-------------------|--|-------------------------|-----------------------|--|--|------------------------------------|---------------|
| John McKowen (1) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Wayne Harding (2) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Jolee Henry | 20,000 | 0 | 0 | 0 | 0 | 0 | 20,000 |
| John Stroh II (3) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Fred Jones(4) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Howard Farkas (5) | 20,000 | 0 | 0 | 0 | 0 | 0 | 20,000 |

(1) During the year ended December 31, 2009, Mr. McKowen received compensation as set forth in the Executive Compensation Table on page 29.

(2) During the year ended December 31, 2009, Mr. Harding received compensation as set forth in the Executive Compensation Table on page 29.

(3) During the year ended December 31, 2009, Mr. Stroh received compensation as set forth in the Executive Compensation Table on page 29.

(4) During the year ended December 31, 2009, Mr. Jones received contract labor compensation for services rendered outside of his board function of \$34,800.

(5) Mr. Farkas did not stand for re-election at the 2008 Annual Shareholder meeting held on November 19, 2009. The \$20,000 payment represents cash payments received by Mr. Farkas in 2009. Fees paid to outside directors are paid in arrears. There was a \$2,750 payment made to Mr. Farkas in 2010 for his pro-rata service from October 1, 2009 to November 19, 2009.

Each outside director receives \$5,000 per calendar quarter. This includes services for the Audit Committee.

LONG TERM COMPENSATION PLANS AND STOCK OPTIONS

The board of directors has adopted a Management Incentive Plan that contemplates the issuance of options as well as cash bonuses to certain executive officers and key employees of the Company. The incentive plan is administered by the Company's board of directors and it is contemplated that bonuses will be granted following the successful closing of a transaction by the business development division of the Company. The amount of the grants will be based on the value of the transaction and participants are designated by the Company's board of directors upon recommendation by the Chief Executive Officer. There have not been any stock options granted under this incentive plan.

Stock Option Plan

On May 6, 2005, the Company's board of directors adopted the Two Rivers 2005 Stock Option Plan pursuant to which the board may grant options to purchase a maximum of 5,000,000 shares of Two Rivers common stock to key employees, directors and consultants. As of December 31, 2009, options to purchase an aggregate of 3,631,510 shares of common stock were issued and outstanding consisting of options to purchase 2,981,510 shares of common stock at an exercise price of \$1.25 per share and options to purchase an aggregate of 650,000 shares of common stock at an exercise price of \$2.00 per share. The later options were granted to the Company's executive officers and Directors and are subject to approval by the shareholders at the next annual meeting of the Company. The option plan only provides for the grant of nonqualified stock options.

Two Rivers Water Company

The exercise price of options may not be less than the fair market value on the date of grant as determined by the board of directors and will expire no later than the tenth anniversary of the date of grant. The board may establish vesting or other requirements which must be met prior to the exercise of the stock options. In the event of a corporate transaction involving Two Rivers (including, without limitation, any stock dividend, stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination or exchange of shares), the board may adjust outstanding awards to preserve the benefits or potential benefits of the awards.

Audit Committee

The Company does not have a separate Audit Committee. The members of the Board sit as the Audit Committee.

Code of Ethics

The Company has not adopted a Code of Ethics for the Board and the salaried employees.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information regarding the beneficial ownership of outstanding shares of the Company's common stock as of December 31, 2009 on a fully diluted basis, by (a) each person known by the Company to own beneficially 5% or more of the outstanding shares of common stock, (b) the Company's directors, Chief Executive Officer and executive officers whose total compensation exceeded \$100,000 for the last fiscal year, and (c) all directors and executive officers of the Company as a group.

| Title of Class | Name and Address of Beneficial Owner | Amount and Nature of Beneficial Owner | Percent of Class (1) |
|---|--|---------------------------------------|----------------------|
| Common Shares | John McKowen (2) 2000 S Colorado Blvd Annex Bldg Ste 200 Denver CO 80222 | 3,277,002 | 21.2% |
| Common Shares | Wayne Harding (3) 2000 S Colorado Blvd Annex Ste 200 Denver CO 80222 | 73,755 | 0.5% |
| Common Shares | John Stroh II 2000 S Colorado Blvd. Annex Bldg. Ste 200 Denver CO 80222 | 0 | 0% |
| Common Shares | Fred Jones 2000 S Colorado Blvd. Annex Bldg Ste. 200 Denver CO 80222 | 0 | 0% |
| Common Shares | Jolee Henry (4) 2000 S Colorado Blvd. Annex Bldg. Ste 200 Denver CO 80222 | 1,512,850 | 9.8% |
| Total for all Directors and Executive Officers as a Group | | 4,863,607 | 31.5% |

- (1) Applicable percentage ownership is based on 9,214,583 shares of common stock issued and outstanding as of December 31, 2009. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock that are currently exercisable or exercisable within 60 days of December 31, 2009 are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. For the purpose of the Officers and Directors compensation, there are 9,214,583 common shares outstanding; 3,431,510 options, and 2,815,000 warrants, for a total dilution pool of 15,461,093 which is used as the denominator in the Percent of Class calculation.
- (2) Mr. McKowen holds, directly, 1,796,054 shares of the Company's common stock. He holds options exercisable for 1,480,948 shares of the Company's common stock.
- (3) Mr. Harding directly holds 7,089 shares of the Company's common stock. He holds options exercisable for 200,000, of which 66,667 shares are vested.
- (4) Ms. Henry holds, directly, 1,312,850 shares of the Company's common stock. She holds options exercisable for 200,000 shares of the Company's common stock.

Two Rivers Water Company

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Intercompany Transactions

Starting in July 2007, Two Rivers began lending money to Northsight to enable Northsight to make short term, mortgage backed loans to borrowers who are purchasing deeply discounted or foreclosed residential real estate in Arizona and Colorado.

In June, 2008, Two Rivers became the direct funding source for the short term, mortgage backed loans with Northsight acting as the mortgage originator. Therefore, Northsight transferred the loans outstanding back to Two Rivers in exchange for the cancellation of the intercompany note. As of December 31, 2009, Two Rivers had \$232,000 in short term bridge loans outstanding, which is net of an allowance for uncollectable loans of \$139,000.

Officer and Directors Transactions

During the year ended December 31, 2009, the Company paid Mr. McKowen, the CEO and Chairman of the Company, total compensation of \$276,460 which consists of salary of \$241,484, a bonus of \$27,500, and health and dental insurance benefit of \$7,476.

During the year ended December 31, 2009, the Company paid Mr. Harding, the CFO of the Company, a total compensation of \$124,742, which consists of salary of \$95,423, a bonus of \$6,250, and health and dental insurance benefit of \$23,069.

Two of the Company's directors, Mr. McKowen and Mr. Jones, serve as managing members of HCIC. Two of the Company's directors, Mr. Jones and Mr. Stroh II, are members in TRB. Mr. Stroh II is also a managing member of TRB.

On August 17, 2009, Two Rivers through its wholly owned subsidiary TRWC and TRB, formed HCIC, a joint venture. Under the terms of the Joint Venture agreements, the Company, at the Company's sole discretion, can contribute up to \$2,850,000 in cash. TRB contributed purchased options in the Mutual Ditch with a fair value of \$2,850,000. Under certain conditions, TRB members can exchange their membership units in TRB for common shares in Two Rivers.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Schumacher and Associates, Inc. (Schumacher) has been engaged as the Company's principal audit accounting firm from November 5, 2008 to date. The Company's Board of Directors has considered whether the provisions of audit services are compatible with maintaining Schumacher's independence. Prior to November 5, 2008, Jaspers + Hall, P.C. (Jaspers) was engaged as the Company's principal accounting firm for the year ended December 31, 2007 and the period of January 1, 2008 through October 28, 2008.

The following table represents aggregate fees billed to the Company during the year ended December 31, 2009 by Schumacher and during the year ended December 31, 2008 by both Schumacher (\$4,300) and by Jaspers (\$27,000).

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| | Year Ended December 31, | |
|--------------------|-------------------------|----------|
| | 2009 | 2008 |
| Audit Fees | \$69,900 | \$31,300 |
| Audit-related Fees | 0 | 0 |
| Tax Fees | 0 | 0 |
| All Other Fees | 0 | 0 |
| Total Fees | \$69,900 | \$31,300 |

The Company uses a different CPA/Attorney firm for the preparation of income tax reporting.

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PART IV**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

The following is a complete list of exhibits filed as part of this Form 10K. Exhibit number corresponds to the numbers in the Exhibit table of Item 601 of Regulation S-K.

| Number | Description | |
|--------|--|----------------|
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act | Filed Herewith |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act | Filed Herewith |
| 32.1 | Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act | Filed Herewith |
| 32.2 | Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act | Filed Herewith |

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 30, 2010 Two Rivers Water Company

By: /s/John McKowen
John McKowen,
Chief Executive Officer and Chairman of the Board

By: /s/ Wayne Harding
Wayne Harding,
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Dated: March 30, 2010 Two Rivers Water Company

/s/John McKowen
John McKowen, President, Chief Executive Officer
and Chairman of the Board

/s/Wayne Harding
Wayne Harding, Chief Financial Officer and Director

/s/ John Stroh II
John Stroh II, Director

/s/ Fred Jones
Fred Jones, Director

/s/Jolee Henry
Jolee Henry, Director

Two Rivers Water Company

TWO RIVERS WATER COMPANY AND SUBSIDIARIES

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Two Rivers Water Company and Consolidated Subsidiaries

We have audited the accompanying consolidated balance sheets of Two Rivers Water Company and Consolidated Subsidiaries, as of December 31, 2009 and 2008, and the related consolidated Statements of Operations, Stockholders' Equity, and Cash Flows for the years ended December 31, 2009 and 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Two Rivers Water Company and Consolidated Subsidiaries as of December 31, 2009 and 2008, and the results of its consolidated operations and cash flows for the years ended December 31, 2009 and 2008, in conformity with accounting principles generally accepted in the United States of America.

SCHUMACHER & ASSOCIATES, INC.

Denver, Colorado
March 29, 2010

Two Rivers Water Company

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TWO RIVERS WATER COMPANY AND SUBSIDIARIES
Consolidated Balance Sheets (In Thousands)

| | December 31, | |
|---|------------------|-----------------|
| | 2009 | 2008 |
| ASSETS: | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 616 | \$ 874 |
| Mortgages receivable - Net of allowance for bad debts of \$476 and unearned revenue of \$6 on December 31, 2008 (Notes 2, 4) | - | 2,197 |
| Note receivable - Jaguar Group LLC net of \$1,407 allowance on December 31, 2009 and December 31, 2008 (Note 4) | - | - |
| Note receivable - Aegis/Grizzle (Note 4, 13) | 295 | - |
| Accrued interest receivable | 4 | 88 |
| Advances and accounts receivable | 1 | - |
| Income taxes receivable (Notes 2, 9) | 489 | - |
| Deposits | 202 | - |
| Prepaid expenses | 16 | 21 |
| Assets held for sale | 134 | - |
| Total Current Assets | 1,757 | 3,180 |
| Property, equipment and software, net (Note 2) | 94 | 114 |
| Other Assets | | |
| Mortgages receivable - Net of allowance for bad debts of \$139 on December 31, 2009 and \$162 on December 31, 2008 (Notes 2, 4) | 232 | - |
| Notes receivable - Mauriello, net of allowance of \$151 (Note 4) | - | - |
| Notes receivable - Aegis/Grizzle (Note 4) | - | 450 |
| Investment in Boston Property, net of impairment of \$889 on December 31, 2009 and \$492 on December 31, 2008 (Note 5) | 2,073 | 2,315 |
| Land and water shares (Notes 2, 3) | 3,258 | - |
| Options on real estate (Notes 2, 3) | 2,586 | - |
| Dam Construction (Note 3) | 163 | - |
| Other real estate owned - net of impairment of \$313 and \$538 and accumulated depreciation of \$40 and \$67 on December 31, 2009 and 2008, respectively (Note 2) | 1,042 | 3,288 |
| Other assets | - | 3 |
| Total Other Assets | 9,354 | 6,056 |
| TOTAL ASSETS | \$ 11,205 | \$ 9,350 |
| LIABILITIES & STOCKHOLDERS' EQUITY: | | |
| Current Liabilities: | | |
| Accounts payable | \$ 281 | \$ 149 |
| Short term borrowings (Note 6) | 950 | 1,391 |
| Accrued taxes payable (Note 2, 9) | - | 85 |
| Deposits held | 30 | - |
| Accrued liabilities | 5 | 38 |
| Total Current Liabilities | 1,266 | 1,663 |
| Note Payable - Roehrich (Note 6) | 2,175 | - |
| Total Liabilities | 3,441 | 1,663 |
| Commitments and Contingencies (Notes 1, 2, 3, 4, 5, 6, 8, 9, 10, 11, 12, 13, 14) | | |
| Stockholders' Equity: | | |
| Common stock, \$0.001 par value, 100,000,000 shares authorized, 9,214,583 and 9,019,057 shares issued and outstanding at Dec 31, 2009 and 2008, respectively | 9 | 9 |
| Additional paid-in capital | 9,200 | 8,873 |
| Accumulated (deficit) | (4,120) | (1,195) |
| Total Two Rivers Water Company Shareholders' Equity | 5,089 | 7,687 |
| Noncontrolling interest in a subsidiary (Note 2) | 2,675 | - |
| Total Stockholders' Equity | 7,764 | 7,687 |

TOTAL LIABILITIES & STOCKHOLDERS' EQUITY\$ 11,205\$ 9,350

The accompanying notes to consolidated financial statements are an integral part of these statements.

Two Rivers Water Company

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TWO RIVERS WATER COMPANY AND SUBSIDIARIES
Consolidated Statements of Earnings (In Thousands)

Year Ended

| | Dec 31, 2009 | Dec 31, 2008 |
|---|-------------------|----------------|
| Revenue | | |
| Loan Fees and real estate income | \$ 91 | \$ - |
| Interest revenues | 43 | 313 |
| Other Income | 11 | 1 |
| Total Revenue | <u>145</u> | <u>314</u> |
| Cost of loan fees including facilities and commissions | 89 | - |
| Gross Profit | <u>56</u> | <u>314</u> |
| Operating Expenses: | | |
| General and administrative | 1,723 | 1,320 |
| Depreciation and amortization | 7 | 5 |
| Total operating expenses | <u>1,730</u> | <u>1,325</u> |
| Loss from operations | <u>(1,674)</u> | <u>(1,011)</u> |
| Other income (expense) | | |
| Impairments and bad debts (Note 2) | - | (1,962) |
| Gain on sale of investments | 33 | 5,581 |
| Interest income | 42 | - |
| Interest (expense) | (54) | (68) |
| Other income (expense) | - | 2 |
| Total other income (expense) | <u>21</u> | <u>3,553</u> |
| Net (Loss) Income from continuing operations before taxes | <u>(1,653)</u> | <u>2,542</u> |
| Income tax benefit (expense) | 314 | (810) |
| Net (Loss) Income from continuing operations | <u>(1,339)</u> | <u>1,732</u> |
| Discontinued Operations (Note 10) | | |
| Loss from operations of discontinued real estate and mortgage business (including loss on disposal of real estate of \$250 in 2009 and \$8 in 2008) | (1,922) | (1,720) |
| Income tax benefit | 161 | 170 |
| Loss on discontinued operations | <u>(1,761)</u> | <u>(1,550)</u> |
| Net (Loss) Income | (3,100) | 182 |
| Less net (loss) attributable to the noncontrolling interest | 175 | - |
| Net (Loss) Income attributable to Two Rivers Water Company | <u>\$ (2,925)</u> | <u>\$ 182</u> |
| (Loss) Earnings Per Share - Basic: | | |
| (Loss) Income from continuing operations | \$ (0.13) | 0.19 |
| (Loss) Income from discontinued operations | (0.20) | (0.17) |
| Total | <u>\$ (0.33)</u> | <u>0.02</u> |
| Weighted Average Shares Outstanding: | | |
| Basic | <u>8,959</u> | <u>9,040</u> |

The accompanying notes to consolidated financial statements are an integral part of these statements.

Two Rivers Water Company

TWO RIVERS WATER COMPANY AND SUBSIDIARIES
Consolidated Statements of Cash Flows (In Thousands)
For the Year Ended Dec 31,

| | 2009 | 2008 |
|---|----------------|----------------|
| Cash Flows from Operating Activities: | | |
| Net (Loss) Income | \$ (3,100) | \$ 182 |
| Adjustments to reconcile net income or (loss) to net cash used in operating activities: | | |
| Depreciation (including discontinued operations) | 67 | 54 |
| Increase in reserves and impairments | 784 | 2,752 |
| Recapture of impairments from REOs sold | (708) | - |
| Loss from REOs sold (discontinued operations) | 250 | - |
| Reduction of allowance for bad debts | 23 | - |
| (Gain) on sale of investments | (33) | (5,581) |
| Stock based compensation | 118 | 114 |
| Changes in operating assets and liabilities: | | |
| (Increase) in deposits | (202) | - |
| Decrease in accounts receivable | - | 2 |
| Decrease (increase) in accrued interest receivable | 83 | (43) |
| Decrease in prepaid expenses and other assets | 5 | 56 |
| Decrease (increase) in mortgage loans receivable | 1,246 | (4,557) |
| (See Supplemental Information below) | | |
| (Increase) in income tax receivable | (489) | - |
| Increase in accounts payable | 122 | 134 |
| (Decrease) increase in accrued liabilities and other | (88) | 21 |
| Net Cash (Used in) Operating Activities | (1,922) | (6,866) |
| Cash Flows from Investing Activities: | | |
| Investments (increased)/decreased | | |
| Boston real estate | (155) | (1,529) |
| Other residential real estate held for sale | (134) | - |
| Marketable securities purchased | (124,357) | (1,272) |
| Proceeds from marketable securities sold | 124,263 | 4 |
| Sale of BPZ shares | 270 | 8,120 |
| Proceeds from REO properties sold | 2,710 | - |
| Decrease in note receivable | 155 | - |
| Purchase of fixed assets | (17) | (96) |
| Purchase of land, water shares, and options | (2,711) | - |
| Dam construction | (163) | - |
| Other assets | 3 | 5 |
| Net Cash Provided by/(Used in) Investing Activities | (136) | 5,232 |
| Cash Flows from Financing Activities: | | |
| Increase in long term borrowings | 2,175 | 1,100 |
| Paydown real estate loans | (441) | - |
| Option exercise proceeds | 10 | 5 |
| Private placement | 150 | - |
| Retirement of Common Stock | (94) | (4) |
| Net Cash Provided by Financing Activities | 1,800 | 1,101 |
| Net (Decrease) in Cash & Cash Equivalents | (258) | (533) |
| Beginning Cash & Cash Equivalents | 874 | 1,407 |
| Ending Cash & Cash Equivalents | \$ 616 | \$ 874 |

Continued on next page

Continued from previous page

**Supplemental Disclosure of Cash Flow
Information**

| | | |
|--|----------|----------|
| Non cash settlement on short term mortgages and transfers | \$ 3,864 | \$ 3,233 |
| Non cash retirement/disposal of fixed assets | \$ (77) | \$ - |
| Non-controlling interest | \$ 2,850 | \$ - |
| Cash paid for Interest | \$ 107 | \$ 116 |
| Cash paid for Income Taxes | \$ - | \$ 554 |
| Cash received from Income tax refunds | \$ 75 | \$ - |
| Increase in Additional Paid in Capital due to stock options issued | \$ 10 | \$ 114 |
| Recovery of BPZ shares | \$ 143 | \$ - |
| Related party transaction | \$ 160 | \$ - |

The accompanying notes to consolidated financial statements are an integral part of these statements

Two Rivers Water Company

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TWO RIVERS WATER COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the Year Ended December 31, 2009 and 2008 (In thousands)

For the Years Ended December 31, 2008 and 2009
(In thousands)

| | Voting Common Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Income | Non- Controlling Interest | Accumulated (Deficit) | Stockholders' Equity |
|---|------------------------|--------|----------------------------------|---|---------------------------------|--------------------------|-------------------------|
| | Shares | Amount | | | | | |
| Balances, December 31, 2007 | 8,924 | \$ 9 | \$ 8,758 | \$ 1,578 | \$ - | \$ (1,377) | \$ 8,968 |
| Net Income | - | - | - | - | - | 182 | 182 |
| Options exercised | 100 | - | 5 | - | - | - | 5 |
| Change in unrealized gains | - | - | - | (1,578) | - | - | (1,578) |
| Stock-based compensation expense | - | - | 114 | - | - | - | 114 |
| Retirement of Stock- open market purchases | (5) | - | (4) | - | - | - | (4) |
| Balances, December 31, 2008 | 9,019 | 9 | 8,873 | - | - | (1,195) | 7,687 |
| Net (Loss) | - | - | - | - | (175) | (2,925) | (3,100) |
| Stock-based compensation expense | - | - | 118 | - | - | - | 118 |
| Retirement of Stock - open market purchases | (155) | - | (94) | - | - | - | (94) |
| Stock purchased through private placement | 150 | - | 150 | - | - | - | 150 |
| Options exercised | 200 | - | 10 | - | - | - | 10 |
| Recovered BPZ stock (Notes 2, 4) | - | - | 143 | - | - | - | 143 |
| Non-controlling interest in a subsidiary | - | - | - | - | 2,850 | - | 2,850 |
| Balances, December 31, 2009 | 9,214 | \$ 9 | \$ 9,200 | \$ - | \$ 2,675 | \$ (4,120) | \$ 7,764 |

The accompanying notes to consolidated financial statements are an integral part of these statements.

Two Rivers Water Company

TWO RIVERS WATER COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2009 and 2008

NOTE 1 - ORGANIZATION

GENERAL

Two Rivers Water Company was incorporated in December 2002 in the state of Colorado, as a wholly owned subsidiary of Navidec Inc. ("Old Navidec"). The Company was formerly known as Navidec Financial Services, Inc. until it changed its name on November 19, 2009 to Two Rivers Water Company. The Company's operations are primarily centered in Colorado and Arizona.

On August 17, 2009 HCIC Holdings, LLC ("HCIC"), a Colorado limited liability company, was formed to acquire and operate the Water Business. The Company owns 50% of HCIC. The other owner of 50% of HCIC is Two Rivers Basin LLC, a Colorado limited liability company ("TRB").

In addition, Two Rivers operates the following businesses: (a) property management and residential real estate brokerage in Arizona, and (b) development of a three unit residential condominium in Boston Massachusetts. The Company is in the process of liquidating its real estate and mortgage assets through the sale of residential properties acquired through foreclosure and the sale or payoff of the two remaining mortgages it holds.

OUR WATER BUSINESS

The Company intends to focus its entire efforts on the development of the Water Business and other related businesses. Therefore, the Company is winding down and/or disposing of its other businesses. The Company is in the process of completing the purchase of the remaining outstanding shares of Huerfano-Cucharas Irrigation Company; a Colorado Mutual Ditch Company located in Huerfano and Pueblo counties in the State of Colorado (the "Mutual Ditch Company") and additional land which would assist in perfecting water rights and provide additional water resources. As of December 31, 2009 HCIC had an 18% ownership in the Mutual Ditch Company. As of March 1, 2010, the HCIC owned 59% of the Mutual Ditch Company.

The Mutual Ditch Company owns a large privately held, on-stream reservoir of 41,200 acre feet capacity with associated direct flow and storage rights and a mutual ditch water distribution system that holds easement rights into the Arkansas River.

The Company's objective is to develop the Mutual Ditch Company's water resources and enhance water storage capacity to the fully permitted 41,200 acre feet through a major dam and structure renovation and improvement project.

The Company's purchase and subsequent development of the Mutual Ditch Company is referred to as the "Water Project." The subsequent development began after the Company acquired a majority interest in the Mutual Ditch Company.

Two Rivers Water Company

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SUBSIDIARIES

TRWC, INC. (formerly Two Rivers Water Company)

On July 28, 2009, the Company formed Two Rivers Water Company, a Colorado corporation. On November 19, 2009, with shareholder approval, the Company changed its parent name from Navidec Financial Services, Inc. to Two Rivers Water Company. Simultaneously the Company changed the original Two Rivers Water Company's name to TRWC, Inc. ("TRWC").

It is the Company's intent to use TRWC to hold certain agriculture real estate.

HCIC HOLDINGS, LLC

Two Rivers currently operates a water acquisition, development and distribution business in Huerfano County, Colorado through its 50% owned subsidiary HCIC, which at December 31, 2009 had an 18% ownership in the Mutual Ditch Company. As of March 1, 2010, HCIC owned 59% and had under contract to purchase another 27% of the Mutual Ditch Company.

On August 17, 2009, Two Rivers, through its wholly owned subsidiary TRWC, and TRB formed HCIC, a joint venture. Under the terms of the joint venture agreements, the Company, at the Company's sole discretion, can contribute up to \$2,850,000 in cash. As of December 31, 2009 the Company has contributed \$1,807,000 in HCIC. At March 11, 2010, the Company has contributed \$3,404,000 to HCIC and the related Water Project. Therefore the Company has recognized the \$2,850,000 as their capital contribution to the Joint Venture in the Company's December 31, 2009 financial statements. The capital contribution was eliminated in the consolidation with HCIC.

Further, due to the Company being the sole contributor of operational cash, without which HCIC would be unable to operate, the Company is treating its investment in HCIC as a Variable Interest Entity ("VIE") and under US GAAP should consolidate HCIC.

In coming to the conclusion to consolidate HCIC, the Company researched the authoritative literature as it pertains to the equity method of accounting and joint ventures (ASC 323.10.15). Other considerations to be examined if there is a VIE relationship which pertains to the Company includes representation on the board of directors; participating in policy-making processes, and the interchange of managerial personnel (ASC 323.10.15-6). Further, accounting standards require valuing TRB's contribution in HCIC at fair value, which is estimated to be \$2,850,000.

Before the formation of HCIC on August 17, 2009, TRB paid \$130,000 to 93% of the shareholders of the Mutual Ditch Company for the right to purchase the shares of the Mutual Ditch Company. During the three months ended September 30, 2009, HCIC paid \$70,000 to extend the option to purchase land and water shares from shareholders of the Mutual Ditch Company. If the land and water shares are purchased, the option payments will reduce the purchase price. Subsequent to December 31, 2009, HCIC exercised options for 41% of the shares of the Mutual Ditch Company.

NORTHSIGHT, INC. (formerly Navidec Mortgage Holdings, Inc.)

On September 11, 2003, Old Navidec purchased an 80% interest in Northsight Mortgage Group, LLC ("NMG"), an Arizona mortgage broker, in exchange for 197,056 shares of Old Navidec common stock, valued at \$246,000. The remaining 20% of NMG was owned by Dan Walen, James Kearns and Ronald Lynch.

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In September 2004, the Company was spun off from Old Navidec as part of a reverse merger completed between BPZ Resources, Inc and Old Navidec. As a condition to the reverse merger, the Company assumed all the legacy assets and liabilities of Old Navidec which included the 80% ownership of NMG.

On May 4, 2005, we formed Navidec Mortgage Holdings, Inc., a Colorado corporation ("NMH"), as a subsidiary and received 8,000,000 common shares of NMH. On November 11, 2007, NMH amended its articles of incorporation and changed its name to Northsight.

On October 12, 2007, we exchanged our 80% interest in NMG for 12,000,000 common shares of Northsight to bring the total common shares of Northsight owned by Two Rivers to 20,000,000 shares. On October 12, 2007, Northsight purchased the remaining 20% minority interest in NMG from the minority members for 800,000 shares of Northsight. As a result of this transaction and at December 31, 2008 we owned 98% of Northsight and the former minority members of NMG owned 2% of Northsight.

Starting in July 2007, we began lending money to Northsight to enable Northsight to make short term, mortgage backed loans to borrowers who were purchasing deeply discounted or foreclosed residential real estate in Arizona and Colorado. From July 2007 until June 2008, Two Rivers advanced funds for Northsight to lend as short-term mortgage backed loans. The advances to Northsight yield 12% and are callable on demand by Two Rivers. Our loans to Northsight were collateralized by first deeds of trust or assignments of trust deeds on residential real estate. In June 2008, Northsight transferred the ownership of the first lien mortgages and notes to Two Rivers in exchange for \$4,311,000, the amount owed Two Rivers from Northsight. As of December 31, 2009 and 2008 respectively, Two Rivers had \$231,000 and \$2,203,000 (net of an allowance for impairment of \$139,000 and \$476,000, respectively) in short term bridge loans outstanding.

Due to a dramatically worsening mortgage, housing and macro-economic environment in the last year, Northsight modified its business plan. Wholesale mortgage lending declined significantly due to a drop off in wholesale mortgage lenders, thereby making it extremely difficult for mortgage brokers to find mortgage loan products. Mortgage banks, as compared to a mortgage broker, have fared better although at less than optimum levels. Northsight is undergoing an orderly sale of the majority of its assets.

Additionally, in early 2009 Northsight eliminated its short term bridge lending in an effort to reduce its exposure to credit risk. No new loans were granted. The largest portion of the Company's consolidated operational expense was related to short term bridge loans and conventional mortgage originations. Those operational expenses have been significantly reduced.

Northsight is a mortgage broker subject to state and federal regulations regarding consumer protection, including Truth-In-Lending and RESPA, since it originates consumer loans. NMG is a licensed mortgage broker in the State of Arizona. There are registration and limited licensing requirements for being a mortgage broker in the State of Colorado.

SOUTHIE DEVELOPMENTS, LLC

Two Rivers formed a Colorado limited liability company, Southie Developments, LLC, ("Southie") on January 31, 2008, as its sole and managing member. Southie was organized to develop residential real estate for resale and to own and manage residential real estate acquired via foreclosure of real estate loans owned by Two Rivers. Once a real estate loan defaults and Two Rivers obtains title to the collateral, Two Rivers transfers the property to Southie for development and management. As part of the management and development of the properties transferred to it, Southie honors any existing residential leases and will potentially expend monies for rehabilitation of the property with the option of selling the property in a short time period, usually less than one year. However, if Southie deems the property to be a good longer term investment, they might hold the property for periods longer than 12 months. At December 31, 2009, Southie owns six properties and one development property, as discussed below.

Two Rivers Water Company

In November 2007, Northsight purchased 56 Thomas Park, South Boston, Massachusetts 02127, a residential property, for \$1,200,000 ("Thomas Park Property"). The Thomas Park Property is a 6,000 square feet single family residence that Northsight is converting into three 2,000 square feet individual condominium single family units. Northsight expects to purchase additional properties in the Boston area market to develop and sell or rent. As of May 19, 2008, Southie acquired a \$1,200,000 construction loan with Mt. Washington Cooperative Bank for the development of the Thomas Park Property. The loan is due on June 1, 2010 with monthly interest only payments, at prime plus 2% interest rate and an interest rate floor of 7%. As of December 31, 2009, the balance owed on the loan was \$950,000. Previously, this loan was due on November 19, 2009 but was extended to June 1, 2010. As part of the agreement to extend the loan a principal reduction was due and an establishment of a restricted cash account to cover interest payments until June 1, 2010. The restricted cash account was not established until January 12, 2010 and totaled \$46,000. As of December 31, 2009, the Company had invested \$2,962,000 including the bank construction loan of \$950,000. The Thomas Park Property is now listed for sale.

At December 31, 2009, Southie had four residential properties in Arizona and two properties in Colorado acquired by foreclosure or deed-in-lieu process. At December 31, 2009, the carrying value of these properties was \$1,034,000 (net of \$313,000 impairment and \$49,000 in accumulated depreciation).

Effective January 1, 2010, Two Rivers transferred 100% of its ownership of Southie to Northsight.

LEGENDARY INVESTMENT GROUP, LLC

Legendary Investment Group, LLC ("Legendary") is a limited liability company under the laws of the state of Arizona. It was formed in October 2008 and in December 2008 became a 100% owned subsidiary of Northsight. Northsight acquired Legendary based on Northsight's ability to fund and expand Legendary's business. There is no formal amount of future funding and expansion and Northsight can withdrawal their funding at any time without material future financial exposure. Legendary's business is in Arizona and focused on residential investors and property management. Legendary has assisted the Company with the management of Arizona property owned by the Company and selling Arizona property owned by the Company.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Two Rivers and its subsidiaries, Northsight, Inc., Northsight Mortgage formerly known as Navidec Mortgage Holdings, Inc., and Southie Development, LLC. Two Rivers owns 98% of Northsight and the former minority member of Northsight Mortgage Group, LLC owns 2% of Northsight, Inc. Two Rivers owns 100% of Southie Development, LLC. As of December 31, 2009 and 2008, Northsight, Inc. had a negative stockholders' deficit, therefore, the consolidated financial statements do not include a provision for a liability for minority interest. All significant inter-company balances and transactions have been eliminated in consolidation.

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On August 17, 2009, Two Rivers through its wholly owned subsidiary TRWC, and TRB formed HCIC, a joint venture. Under the terms of the Joint Venture agreements, the Company, at the Company's sole discretion, can contribute up to \$2,850,000 in cash. As of December 31, 2009 the Company has contributed \$1,807,000. Since it is the Company's intent to fund the Joint Venture up to the maximum of \$2,850,000, the Company has recognized the \$2,850,000 as their capital contribution to the Joint Venture. The capital contribution was eliminated in the consolidation with HCIC.

Further, due to the Company being the sole contributor of operational cash, without which HCIC would be unable to operate, the Company is treating its investment in HCIC as a Variable Interest Entity (VIE) and under US GAAP should consolidate HCIC.

In coming to the conclusion to consolidate HCIC, the Company researched the authoritative literature as it pertains to the equity method of accounting and joint ventures (Section 323.10.15). Other considerations to be examined if there is a VIE relationship which pertains to the Company includes representation on the board of directors; participating in policy-making processes, and the interchange of managerial personnel (Section 323.10.15-6). Further, accounting standards require valuing TRB's contribution in HCIC at fair value, which is estimated to be \$2,850,000.

Before the formation of the HCIC on August 17, 2009, TRB paid \$130,000 to 93% of the shareholders of the Mutual Ditch Company for the right to purchase the shares of the Mutual Ditch Company. During the three months ended September 30, 2009, HCIC paid \$70,000 to extend the option to purchase land and water shares from shareholders of the Mutual Ditch Company. If the land and water shares are purchased, the option payments will reduce the purchase price. If these options are not exercised by HCIC, then the full option payments of \$210,000 will be forfeited by HCIC. Subsequent to December 31, 2009, options to purchase 41% of the Mutual Ditch were exercised, and it is the Company's intent to exercise all of the options.

Reclassification

Certain amounts previously reported have been reclassified to conform to current presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ materially from those estimates.

Cash and Cash Equivalents

For purposes of reporting cash flows, Two Rivers considers cash and cash equivalents to include highly liquid investments with original maturities of 90 days or less. Those are readily convertible into cash and not subject to significant risk from fluctuations in interest rates. The recorded amounts for cash equivalents approximate fair value due to the short-term nature of these financial instruments.

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Concentration of Credit Risk

Financial instruments that potentially subject Two Rivers to significant concentrations of credit risk include cash equivalents, notes receivable and trade accounts receivable. The Company maintains its cash and investment balances in the form of bank demand deposits, money market accounts, commercial papers and short-term notes with financial institutions that management believes to be of high credit quality. Accounts receivable are typically uncollateralized and are derived from transactions with and from customers primarily located in the United States.

As of December 31, 2009, the Company had \$518,000 in an individual bank demand deposit, of which \$250,000 is covered by FDIC insurance. All other bank accounts were under the FDIC insurance limit of \$250,000.

As of December 31, 2009, the Company had \$6,000 in cash in a stock brokerage account, and \$26,000 represented by 20,000 shares of the Company's stock, which the Company plans to retire. Stockholders' equity at December 31, 2009 has been adjusted to reflect outstanding shares as if the 20,000 shares had already been retired.

Management reviews accounts receivable periodically and reduces the carrying amount by a valuation allowance that reflects management's best estimate of amounts that may not be collectible. Allowances, if any, for uncollectible accounts receivable are determined based upon information available and historical experience. As of December 31, 2009, there was an allowance of \$139,000 against a long term mortgage balance of \$371,000. As of December 31, 2008, there was an allowance of \$476,000 and unearned revenue of \$6,000 against a short term mortgage balance of \$2,679,000.

No revenues to unaffiliated customers represented 10% or more of the Company's revenue for the year ended December 31, 2008.

Notes Receivable

The Company carries its notes receivable at cost or loan balance, subject to the valuation procedures described below. The book value of these financial instruments is representative of their fair values. As of December 31, 2009 and 2008, the Company had a total of \$232,000 and \$2,197,000, respectively, invested in mortgages receivable, net of an allowance for bad debt of \$139,000 and \$476,000, respectively. The notes receivable as of December 31, 2008 is net of deferred income of \$6,000 related to recognizing our fee income over the expected useful life of our notes receivable

Interest is accrued monthly on notes receivable as earned and is no longer accrued if the loan becomes more than 90 days past due. The Company provides a valuation for certain loans that are delinquent. The valuation account is netted against notes receivable. As of December 31, 2008, loans totaling \$1,455,000 were past 90 days due. Total interest accrued on these delinquent loans was \$24,000 at December 31, 2008. As of December 31, 2009, no interest was being accrued on the two remaining loans, since one loan is in default and under legal action (see Note 12 on page [INSERT PAGE NUMBER]) and the other mortgage note is current with no accrued interest due.

Investments

Investments in publicly traded equity securities over which Two Rivers does not exercise significant influence are recorded at market value in accordance with ASC 320 "Investments - Debt and Equity Securities," which requires that all applicable investments be classified as trading securities, available for sale securities or held-to-maturity securities. Comprehensive income includes net income or loss and changes in equity from the market price variations in stock and warrants held by the Company.

Investments in non-publicly traded equity securities or non-marketable equity securities are stated at the lower of cost or estimated realizable value.

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Other Real Estate Owned

Other real estate owned is comprised of real estate and other assets acquired through foreclosure, acceptance of a deed in lieu of foreclosure or otherwise acquired from the debtor in lieu of repayment of the debt. Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Revenues, expenses and subsequent adjustments to fair value less estimated costs to sell are classified as expenses for other real estate owned. Depreciation is taken on property held and rented or with intent to rent. Depreciation on residential real estate is computed straight-line over 27.5 years.

Intangibles

Intangibles with an indefinite life. Two Rivers recognizes the estimated fair value of water rights acquired by the Company's purchase of stock in the Mutual Ditch Company. This intangible asset will not be amortized because it has an indefinite remaining useful life based on many factors and considerations, including, the historical upward valuation of water rights within Colorado. Once per quarter, Management will assess the value of the water rights held, and in their opinion, if the rights have become impaired, Management will establish an allowance against the water rights.

Impairments

The market values of our assets are assessed quarterly by Management. If the current market value is less than the net carrying value of the assets, an impairment charge is taken. Subsequently, if market value recovers and the asset is held for sale, the impairment taken is recaptured, up to the amount of the accumulated impairment for each asset. If the asset is held for long term, and the market value recovers, no recapture of impairment will be made.

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| Part 1—Real estate owned at end of period (in thousands) | | | | | Part 2—Rental income (in thousands) | | | | |
|--|---------------------------------------|---|--|--|--|--|--|---|--|
| Column A—List classification of property as indicated below | Column B—Amount of encumbrances | Column C—Initial cost to company | Column D—Cost of improvements, etc. | Column E—Amount at which carried at close of period | Column F—Reserve for depreciation and impairments | Column G—Rents due and accrued at end of period | Column H—Total rental income applicable to period | Column I—Expended for interest, taxes, repairs and expenses | Column J—Net income applicable to period |
| Farms | | | | | | | | | |
| Residential: | | | | | | | | | |
| Arizona | | 551 | 11 | 562 | 164 | - | 18 | 6 | 12 |
| Colorado | | 716 | 5 | 721 | 112 | - | 26 | 24 | 2 |
| Massachusetts | 950 | 1,200 | 1,762 | 2,962 | 889 | - | - | - | - |
| Apartments and business | | | | | | | | | |
| | - | - | - | - | - | - | - | - | - |
| Unimproved: | | | | | | | | | |
| VA | | 123 | - | 123 | 78 | - | - | 1 | (1) |
| CO | 600 | 982 | - | 982 | - | - | - | 1 | (1) |
| Total | 1,550 | 3,572 | 1,778 | 5,350 | 1,243 | - | 45 | 31 | 14 |
| Rent from properties sold during period - AZ | | | | | | | 34 | 13 | 21 |
| Total | 1,550 | 3,572 | 1,778 | 5,350 | 1,243 | - | 79 | 44 | 35 |

| Real Estate Detail (in thousands) | Boston Property | Other Real Estate Owned | Total |
|--------------------------------------|--------------------|----------------------------|---------|
| December 31, 2008 | | | |
| Balance | \$ 2,315 | 3,288 | 5,603 |
| Additions during the period: | | | |
| Acquisitions through foreclosure | | 1,256 | 1,256 |
| Other acquisitions | | 982 | 982 |
| Improvements, etc. | 155 | 5 | 160 |
| Deductions during the period: | | | |
| Cost of real estate sold | | (3,175) | (3,175) |
| Impairments | (397) | (282) | (679) |
| Other (describe) - depreciation | | (41) | (41) |
| Ending Balance, December 31, 2009 | \$ 2,073 | 2,033 | 4,106 |

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Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed principally on the straight-line method over the estimated useful life of each type of asset which ranges from three to seven years. Leasehold improvements are amortized over the remaining term of the applicable leases or their useful lives, whichever is shorter. Maintenance and repairs are charged to expense as incurred; improvements and betterments are capitalized. Upon retirement or disposition, the related costs and accumulated depreciation are removed from the accounts, and any resulting gains or losses are credited or charged to income.

Below is a summary of premises and equipment:

| Asset Type | Life in Years | December 31, 2009 | December 31, 2008 |
|-------------------------------|---------------|----------------------|----------------------|
| Office equipment & Furniture | 5 – 7 | \$ 86,000 | \$ 92,000 |
| Computers | 3 | 52,000 | 96,000 |
| Website | 3 | <u>2,000</u> | <u>2,000</u> |
| Subtotal | | 140,000 | 190,000 |
| Less Accumulated Depreciation | | <u>46,000</u> | <u>76,000</u> |
| Net Book Value | | <u>\$ 94,000</u> | <u>\$ 114,000</u> |

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, trade receivables and payables approximated their fair value because of their short-term nature. Investments in debt securities are recorded at their amortized cost, which approximates fair value because of their short-term maturity. Investments in marketable equity securities are recorded at fair value based upon quoted market prices. Investments in non-marketable equity securities are based upon recent sales of similar securities by the investees and approximated their carrying value. The Company's borrowings approximate their carrying amounts based upon interest rates currently available to the Company.

*Revenue Recognition**Mortgage Revenues*

When active in the residential mortgage loan business, the Company primarily recognized its operating revenue through its subsidiary, Northsight, Inc., by charging origination fees from borrowers and earning interest and penalty fees on outstanding loan balances. Northsight recognizes fee and interest income on bridge, asset and conventional mortgage loans after mortgage loan transactions close.

Until early 2009, when the Company ceased doing mortgage loans, Northsight acted as the mortgage broker and Two Rivers acted as the mortgage banker. Northsight recognizes the origination and associated fees in placing a loan when the loan is closed. However, since the statements are consolidated and Two Rivers is the mortgage banker, under ASC 310, Two Rivers, and the consolidated financial statements of Two Rivers, defers the revenue from the origination and associated fees over the expected life of the loan, which is usually 90 days.

During the years ended December 31, 2009 and 2008, the Company recognized income totaling \$106,000 and \$1,001,000, respectively from origination fees. At December 31, 2009 and 2008, the Company had deferred revenue of \$-0- and 6,000, respectively.

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Interest Revenues

Revenues from interest are recorded at the time they are earned, thus the revenues shown are for interest actually received and the accruals for that which is due to the Company except for delinquent accruals over 90 days as discussed under notes receivable above. Interest continues to accrue until a foreclosure process begins. At that point, no additional interest is accrued for book purposes. Interest revenues for the year ended December 31, 2009 were \$43,000 and exclude accruals for delinquent notes receivable over 90 days. Two Rivers accrues interest and penalty interest income at the end of each quarter.

Marketing and Advertising Expenses

For the years ended December 31, 2009 and 2008, the Company expended \$-0- and \$186,000, respectively on advertising and marketing. The Company expenses these costs when incurred.

Stock Based Compensation

Beginning January 1, 2006, the Company adopted the provisions of ASC 718 and accounts for stock-based compensation in accordance with ASC 718. Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which generally is the vesting period. The Company elected the modified-prospective method, under which prior periods are not revised for comparative purposes. The valuation provisions of ASC 718 apply to new grants and to grants that were outstanding as of the effective date and are subsequently modified.

All options granted prior to the adoption of ASC 718 and outstanding during the periods presented were fully-vested at the date of adoption.

In December 2007, the SEC issued Staff Accounting Bulletin (“SAB”) 110 which was issued to express the understanding that the use of a “simplified” method, as discussed in SAB 107 in developing an estimate of expected term of “plain vanilla” share options in accordance with ASC 718 would be acceptable beyond December 31, 2007. The Company adopted this standard beginning January 2008.

Income Taxes

Provision for income taxes represents actual or estimated amounts payable on tax return filings each year. Deferred tax assets and liabilities are recorded for the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts reported in the accompanying balance sheets, and for operating loss and tax credit carry forwards. The change in deferred tax assets and liabilities for the period measures the deferred tax provision or benefit for the period. Effects of changes in enacted tax laws on deferred tax assets and liabilities are reflected as adjustment to the tax provision or benefit in the period of enactment.

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Net Income (Loss) per Share

Basic net income per share is computed by dividing net income (loss) attributed to Two Rivers available to common shareholders for the period by the weighted average number of common shares outstanding for the period. Diluted net income (loss) per share is computed by dividing the net income for the period by the weighted average number of common and potential common shares outstanding during the period.

The dilutive effect of 3,631,510 options and 2,815,000 warrants at December 31, 2009, has not been included in the determination of diluted earnings per share since, under ASC 260 they would anti-dilutive.

Comprehensive Income (Loss)

Comprehensive income (loss) includes net income or loss and changes in equity from the market price variations in securities held by the Company. At December 31, 2009, there were no remaining shares of BPZ to sell, and during the year ending December 31, 2009 the remaining shares of BPZ were sold representing a gain of \$127,000. The Company sold other securities for a net loss of \$94,000, for a net gain of \$33,000. For the year ended December 31, 2008, the Company sold BPZ shares for a gain of \$5,581,000.

Recently issued Accounting Pronouncements

In December 2007, the FASB issued *SFAS 141 (Revised 2007), Business Combinations* (subsequently incorporated into the ASC 805). ASC 805 retains the fundamental requirements of the original pronouncement requiring that the purchase method be used for all business combinations. ASC 805 defines the acquirer as the entity that obtains control of one or more businesses in the business combination, establishes the acquisition date as the date that the acquirer achieves control and requires the acquirer to recognize the assets acquired, liabilities assumed and any non-controlling interest at their fair values as of the acquisition date. In addition, ASC requires expensing of acquisition-related and restructuring costs, re-measurement of earn out provisions at fair value, measurement of equity securities issued for purchase at the date of close of the transaction and capitalization of in-process research and development related intangibles in certain circumstances. ASC is effective for the first reporting period beginning on or after December 31, 2008 and has been adopted by the Company.

In addition, in December 2007, the FASB issued *SFAS 160, Non-controlling Interests in Consolidated Financial Statements an amendment of ARB 51* (subsequently incorporated into ASC 810). This ASC amends US GAAP to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It also clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. It requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. Additionally, this Statement establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that does not result in a change in control. This ASC is effective for the first annual reporting period beginning on or after December 31, 2008 and has been adopted by the Company.

In March 2008, the FASB issued ASC 815. The Statement requires companies to provide enhanced disclosures regarding derivative instruments and hedging activities. It requires companies to better convey the purpose of derivative use in terms of the risks that such company is intending to manage. Disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under ASC 815 and its related interpretations, and (c) how derivative instruments and related hedged items affect a company's financial position, financial performance, and cash flows are required. This Statement retains the same scope as ASC 815 and is effective for fiscal years and interim periods beginning after November 15, 2008. The Company does not expect the adoption of ASC 815 to have a material effect on its results of operations and financial condition.

In May 2008, the FASB issued FASB Staff Position (FSP) No. APB 14-1 (ASC 470-20) “Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)” (ASC 470-20). ASC requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer’s non-convertible debt borrowing rate. This ASC is effective for fiscal years beginning after December 15, 2008 on a retroactive basis and will be adopted by the Company in the first quarter of fiscal 2009. Through the year ended December 31, 2009, the Company does not expect the adoption of ASC to have a material effect on its results of operations and financial condition. However, beginning in 2010, the Company entered into convertible notes with some of the owners of the Mutual Ditch Company. Management believes that this pronouncement may have a material financial impact, since in March, 2010 the Company issued convertible notes.

In June 2008, the FASB issued FSP EITF 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities.” EITF is now covered under ASC 470-20 which provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. ASC is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Upon adoption, companies are required to retrospectively adjust earnings per share data (including any amounts related to interim periods, summaries of earnings and selected financial data) to conform to provisions of ASC. The Company does not anticipate the adoption of ASC will have a material negative impact on its results of operations, cash flows or financial condition.

On December 23, 2009, the FASB issued ASU 2009-16 to amend U.S. GAAP to incorporate the guidance from ASC 860, *Accounting for Transfers of Financial Assets – an Amendment of FASB Statement No. 140*. ASU 2009-16 enhances information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. ASU 2009-16 is effective for the Company’s fiscal year beginning January 1, 2010. The Company is currently evaluating the impact of the future adoption of Update 2009-16.

On December 23, 2009, the FASB issued ASU 2009-17 to amend U.S. GAAP to incorporate the guidance from ASC 810, *Amendments to FASB Interpretation No. 46R*. ASC 810 is a revision to FASB Interpretation No. 46R (ASC 810), Consolidation of Variable Interest Entities, and changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The objective of ASC 810 is to amend certain requirements of FIN 46®, to improve financial reporting by enterprises involved with VIEs and to provide more relevant and reliable information to users of financial statements. ASU 2009-17 is effective for the Company’s fiscal year beginning January 1, 2010. The Company has adopted this guidance in accounting for its 50% ownership in HCIC for the year ended December 31, 2009.

ASC 715, *Employers’ Disclosures about Postretirement Benefit Plan Assets*, amends US GAAP surrounding *Employers’ Disclosures about Pensions and Other Postretirement Benefits*, to provide guidance on an employer’s disclosures about plan assets of a defined benefit pension or other postretirement plan. The objectives of the disclosures about plan assets in an employer’s defined benefit pension or other postretirement plan are to provide users of financial statements with an understanding of 1) how investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies, 2) the major categories of plan assets, 3) the inputs and valuation techniques used to measure the fair value of plan assets, 4) the effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period, and 5) significant concentrations of risk within plan assets.

ASC 715 was effective for the Company’s year ended December 31, 2009. The adoption of ASC 715 did not have a material effect on the Company’s financial statements.

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FASB Statement No. 165, Subsequent Events (SFAS 165) (subsequently incorporated into the FASB Accounting Standards Codification – ASC 855) establishes general standards of accounting and disclosure of event that occurs after the balance sheet date but before the financial statements are issued or are available to be issued. In particular, this guidance sets forth 1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, 2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and 3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date.

The Company adopted the tenets of the guidance surrounding *Subsequent Events* during its year ended December 31, 2009, the effects of which are more fully described in Note 13.

There were various other accounting standards and interpretations issued in 2009 and 2008, none of which are expected to have a material impact on the Company's financial position, operations or cash flows.

NOTE 3 – INVESTMENTS

Investment in BPZ

Upon consummation of the merger transaction between Old Navidec and BPZ, BPZ issued 604,246 shares of its common stock to Two Rivers. These shares were issued in consideration of Two Rivers' assumption of all of the pre-merger business assets and liabilities of Old Navidec. During 2007 and 2008, these shares were freely tradeable and qualify as "marketable securities" as that term is defined by ASC 320. Therefore, this investment was carried on the books at the fair market value. As of December 31, 2009, the Company held no shares in BPZ.

We had the following proceeds from the sale of BPZ stock:

| Year Ending | | Proceeds |
|-------------------|----|-----------|
| December 31, 2006 | \$ | 893,000 |
| December 31, 2007 | \$ | 7,748,000 |
| December 31, 2008 | \$ | 8,120,000 |
| December 31, 2009 | \$ | 270,000 |

Land and water shares

Upon purchasing water shares and land, the value is recorded at purchase price. Management evaluates the carrying value, and if the carrying value is in excess of fair market, will establish an impairment allowance to reflect current fair market value. Currently, there are no impairments on the land and water shares. No amortization or depreciation is taken on the water shares and land, respectively.

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Options on real estate

Under the terms of the HCIC joint venture, the non-related party owning 50% of HCIC, TRB, contributed options on purchasing the Mutual Ditch Company along with purchase agreements for acquiring land. TRB also contributed cash being held in escrow or that had been paid to owners of the shares of the Mutual Ditch Company. The Company valued TRB's contribution to HCIC at \$2,850,000.

Dam construction

The Company has commenced engineering for the reconstruction of the dam owned by the Mutual Ditch Company. These costs are capitalized, added to the cost of the dam, and not amortized or depreciated until the dam reconstruction is completed in accordance with ASC 360 and 835.

NOTE 4 – NOTES RECEIVABLE

Notes Receivable – General

During the year ended December 31, 2007, the Company entered a transaction with a former officer of the Company, Mr. Robert Grizzle. In exchange for Mr. Grizzle's shares in the Company, on May 3, 2007, Mr. Grizzle executed a note payable to the Company in the amount of \$450,000. The note carries an 8% interest rate and is collateralized by 1,000,000 Aegis USA common shares, 1,500,000 Aegis USA preferred shares, 220,000 shares of the Company's common stock and 200,000 options to purchase shares of the Company's common stock at \$0.05 per share held by Mr. Grizzle. The note is a limited recourse note whereby Mr. Grizzle is personally responsible for one half the original principal and interest. The balance owed is collateralized by Mr. Grizzle's Aegis common and preferred shares and the Company's common stock. Further, the note provides that at the earlier of one year from the date that the common stock of the Company is publicly traded and his shares are registered for resale under an effective registration statement filed by the Company or December 31, 2009. On September 30, 2007, Mr. Grizzle resigned as the Chief Operating Officer and the Chief Financial Officer of the Company. On October 17, 2008, the Company filed with the SEC an S-8 registration statement registering Mr. Grizzle's shares.

During 2009, Mr. Grizzle paid \$155,000 against principal plus all accrued interest through November 24, 2009. (See also Subsequent Events Note on page [INSERT PAGE NUMBER].)

On December 13, 2007, Northsight, Inc. (formerly Navidec Mortgage Holdings, Inc.) entered into a loan agreement with Welend Associated Group, LLC, a Colorado limited liability company and Jaguar Group, LLC, (Jaguar) a Colorado limited liability company, each with joint and severable liability, in the amount of \$1,100,000. The note carries an interest rate of 0% and has a maturity date of six months from the date of the note. Therefore, the Company imputed an 11% interest rate on the note, recognizing \$60,000 in imputed interest, with \$6,000 being amortized for the year ended December 31, 2007 and the remainder amortized in the first six months for the year ended December 31, 2008.

As consideration for making the loan to Jaguar, the Company in substance received the ability to utilize Jaguar's line of credit funding capabilities it had through third party lenders since Jaguar agreed to acquire loans from the Company. Collateral for the note is a first security interest in the equity of the debtor's warehouse line of credit with Colorado State Bank. As of December 31, 2008 there is an additional receivable from Jaguar for approximately \$307,000 which represents loans funded by Two Rivers but not yet funded by Jaguar.

Two Rivers Water Company

On September 29, 2008, Northsight filed a lawsuit, in the Boulder County District Court Colorado, against Jaguar Group, LLC, John R. Reinholdt II and the Estate of John R. Reinholdt Sr. (Defendants) for non-payment of a \$1,100,000 loan made by the Company to Jaguar. The lawsuit also demands immediate payment of other receivables in the amount of \$307,000 owed by Jaguar to the Company. The lawsuit alleged breach of the security and purchase agreements, fraud, civil theft, and conversion.

During the quarter ended September 30, 2008, as a result of the lawsuit filed against Jaguar, the Company increased their provision for allowances to the full amount of the note and account receivables owed by Jaguar, which is \$1,407,000. On November 11, 2008, the District Court in Boulder County entered a default judgment against John Reinholdt Jr (a principal in Jaguar and related entities) and Jaguar Associated Group for \$3,107,000 which the Company is attempting to collect. Due to the uncertainty of collecting the balance, the Company has provided an allowance for the full amount of the Jaguar receivable at December 31, 2008.

Mortgages Receivable

In July 2007, Northsight, Inc. (formerly Navidec Mortgage Holdings, Inc.), a 98% owned subsidiary of the Company, began making short term loans to purchasers of residential properties who purchase their property as part of or after the repossession in a foreclosure proceeding. As of December 31, 2008, Two Rivers had \$2,197,000 in such loans (net of allowance of \$476,000 and unearned income of \$6,000). The loans are made primarily to good credit borrowers and are collateralized by a first mortgage on the purchased properties. The average numbers of days outstanding for the loans are less than 90 days, and the primary takeout on the loans is long term financing through secondary sources such as the Federal National Mortgage Association.

In June 2008, the Company transferred the ownership of the short term loans from Northsight, Inc. to the Company. Due to this transfer, the Company funds and owns the loans. There is no longer an intercompany transfer of funds for mortgage loans. As of December 31, 2009, Two Rivers had \$232,000 (net of allowance of \$139,000) in such loans. As of December 31, 2009, \$253,000 represented by one loan, was past 90 days due.

Summary of Receivables

| Note From | Due | Principal Amount | 12/31/09 Balance | Annual Interest rate | Accrued Interest | Collateral |
|---------------------------|---------------------|------------------|--------------------|----------------------|------------------|--|
| Robert Grizzle | Oct 17, 2009 | \$450,000 | \$295,000 | 8% | \$4,000 | Shares and options in Two Rivers and Aegis |
| Welend-Jaguar | June 13, 2008 | 1,100,000 | 1,407,000 | 0% | -0- | Junior security in residential mortgages |
| Mauriello | Oct 30, 2014 | 151,000 | 151,000 | 8% | -0- | unsecured |
| Short term home mortgages | Various and on-gong | 370,000 | 370,000 | 9.95% to 14% | -0- | First mortgage |
| Total | | | \$2,223,000 | | \$4,000 | |
| Less: | | | | | | |
| Impairments | | | 1,697,000 | | | |
| Less Deferred Income | | | - | | | |
| Net Balance | | | \$526,000 | | | |

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NOTE 5 – INVESTMENTS

In December 2007, Northsight, Inc. (a 98% owned subsidiary of the Company) purchased a three unit property in Boston, Massachusetts, known as Thomas Park. The objective is to rehabilitate the property and then sell it. During the quarter ending June 30, 2008, this property was transferred to Southie Development, LLC (a 100% owned subsidiary of the Company). As of December 31, 2009, the Company and subsidiaries had invested \$2,962,000 in the property. Part of this investment is funded by a \$1,200,000 line of credit from Mt. Washington Cooperative Bank, of which \$950,000 was payable on this line as of December 31, 2009. At the end of 2009, the Company performed an analysis of the fair market value of the Thomas Park and reduced the market price by a 6% cost of sale and \$240,000 estimated to complete the project and determined an allowance/impairment of \$397,000 was necessary.

The Company also has acquired real estate through foreclosure or deed in lieu of foreclosure from its activity in granting short term mortgage financing. At December 31, 2009, the valuation of these real estate owned properties is \$1,396,000 less an impairment allowance of \$313,000 and accumulated depreciation on the rental properties of \$40,000, for a net balance of \$1,042,000.

NOTE 6 – NOTES PAYABLE

The Company had a first mortgage loan against one of their real estate owned properties. As of December 31, 2008, the balance was \$250,000, with a rate of 10.99%, payments of interest only and due May 1, 2009, which was paid on May 1, 2009.

In May 2008, Northsight arranged for a construction line of credit for \$1,200,000, due November 2009. Proceeds from this line were used strictly for the renovation of the Thomas Park property in Boston with the intent to resale. As of December 31, 2008, the balance outstanding was \$1,141,000. (See also Note 5.) Since the loan inception, the Company has capitalized \$54,000 in interest costs during the construction stage and has expensed \$71,000 in interest. This construction line was due November 19, 2009 with interest only payments at prime +2%, with a floor at 7%. The note was extended to June 1, 2010 with the same interest rate. For the extension, the bank required cash to be set aside to cover interest payment through June 1, 2010. This restricted cash account was established January 2010 with a balance of \$46,000. The line contains general covenants which management believes are in full compliance. This note is collateralized by a first security interest in Thomas Park and the personal signature of John McKowen, CEO.

On September 17, 2009, HCIC purchased shares in the Mutual Ditch Company and related land from a Mutual Ditch Company shareholder. As part of this transaction, the seller took back notes payable by HCIC to the seller for \$2,175,000. These notes carry interest at 6% per annum, interest payable monthly, the principal due on September 1, 2012, and are collateralized by the Mutual Ditch Company shares and land.

NOTE 7 – INFORMATION ON BUSINESS SEGMENTS

We organize our business segments based on the nature of the products and services offered. We primarily focus on the Water Business with Two Rivers Water Company as the parent company and TRWC and HCIC Holdings JV as subsidiaries. Two Rivers Water Company also holds our legacy assets that include the mortgage notes receivable, the property acquired through foreclosure or deed in lieu of foreclosure on previous mortgage notes held by the Company. Other existing and prior real estate activity is held in Northsight and Northsight's subsidiaries, Northsight Mortgage LLC, Southie and Legendary. Southie was a wholly owned subsidiary of Two Rivers until the Company's board approved the transfer of Southie as a 100% owned subsidiary of Northsight effective January 1, 2010.

In the following tables of financial data, the total of the operating results of these business segments is reconciled, as appropriate, to the corresponding consolidated amount. There are some corporate expenses that were not allocated to the business segments, and these expenses are contained in the "Total Operating Expenses" under Two Rivers Water Company.

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Operating results for each of the segments of the Company are as follows (in thousands):

| | For the year ended December 31, 2009 | | | | | | For the year ended December 31, 2008 | | | |
|---|--------------------------------------|--------------|----------------|-------------|-------------|--------------|--------------------------------------|--------------|--------------|-------------|
| | Two Rivers Water Co. | Northsight | Southie | Legendary | TRWC | HCIC | Two Rivers Water Co. | Northsight | Southie | Legendary |
| Revenue | | | | | | | | | | |
| Loan fees, interest and other | \$ 55 | - | - | 90 | - | - | 313 | - | - | - |
| Cost of Services | - | - | - | (88) | - | - | - | - | - | - |
| Gross Profit | 55 | - | - | 2 | - | - | 313 | - | - | - |
| Total Operating Expenses | 1,316 | - | - | 50 | 52 | 312 | 3,346 | - | - | 11 |
| Other Income/(Expense) | | | | | | | | | | |
| Gain (loss) on sale of investments | 33 | - | - | - | - | - | 5,581 | - | - | - |
| Other income/(expense) | 26 | - | - | - | - | (39) | (67) | - | - | - |
| Total Other Income/(Expense) | 59 | - | - | - | - | (39) | 5,514 | - | - | - |
| Net (Loss) Income from continuing operations before income taxes | (1,202) | - | - | (48) | (52) | (351) | 2,481 | - | - | (11) |
| Income Taxes (Expense)/Credit | 314 | - | - | - | - | - | (810) | - | - | - |
| Net Income (Loss) from continuing operations | (888) | - | - | (48) | (52) | (351) | 1,671 | - | - | (11) |
| Discontinued operations: | | | | | | | | | | |
| Loss from operations of discontinued real estate and mortgage business | - | (351) | (1,571) | - | - | - | - | (734) | (914) | - |
| Income tax benefit | - | 60 | 101 | - | - | - | - | 170 | - | - |
| Loss on discontinued operations | - | (291) | (1,470) | - | - | - | - | (564) | (914) | - |
| Less net (loss) attributed to noncontrolling interest | - | - | - | - | - | 175 | - | - | - | - |
| Net (Loss) Income attributed to Two Rivers Water Company | \$ (888) | (291) | (1,470) | (48) | (52) | (176) | 1,671 | (564) | (914) | (11) |
| Segment Assets | \$ 1,708 | 125 | 3,093 | 42 | 7 | 6,230 | 3,298 | 423 | 5,616 | 13 |

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NOTE 8 - EQUITY TRANSACTIONS*Common Stock*

During the year ended December 31, 2008, the Company issued 100,000 shares of its common stock in connection with the exercise of an option for cash of \$5,000.

During the year ended December 31, 2008 the Board of Directors authorized the re-purchase of the Company's common stock in the open market. The buyback program is limited by the lesser amount of the following criteria:

- Trading profits, at the time of purchase of Company stock, realized during the present fiscal year on all securities traded by Two Rivers; or
- An amount equal to a maximum of one percent (1%) of Two Rivers tangible net assets; or
- An amount of re-purchase not to exceed \$500,000.

During the year ended December 31, 2008, 5,526 shares were purchased on the open market at a cost of \$4,000 after brokerage fees.

During the year ended December 31, 2009, the Company issued 150,000 shares at \$1.00 per share through a private placement and 200,000 shares through the exercise of 200,000 options at \$0.05 per share.

During the year ended December 31, 2009, the Company recognized stock-based compensation expense of \$118,000, recovered BPZ stock valued at \$143,000 and purchased 154,474 shares of the Company's stock on the open market for \$93,000. These shares were retired except for 20,000 shares that are still pending retirement.

Stock Options

The Company has a Stock Incentive Plan (the "Incentive Plan"), that allows the Company to grant incentive stock options and/or purchase rights (collectively "Rights") to officers, employees, former employees and consultants of the Company and its subsidiaries. The board has given the ability to grant Rights to the CEO.

During the year ended December 31, 2008, the Company awarded 760,000 options at \$2.00/share in Two Rivers common shares and 1,200,000 options at \$0.50/share in Northsight, Inc. The grant and vesting of the options caused payroll expense to increase \$118,000 in 2009 and \$114,000 in 2008 with an offset to Additional Paid In Capital. A Black-Scholes computation was made using a volatility of 58.4% for both companies.

In computing the fair value the following values were used:

| | Two Rivers | Northsight |
|---------------------------------|------------|------------|
| Expected stock price volatility | 43% | 43% |
| Risk-free interest rate | 2.64% | 2.64% |
| Expected option life (years) | 3.8 to 6 | 6 |
| Expected annual dividend yield | 0% | 0% |

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A summary of the Two Rivers option plan is as follows:

| | Shares | Weighted Average Exercise Price |
|--|---------------|--|
| Outstanding, January 1, 2008 | 3,681,510 | \$1.18 |
| Granted | 760,000 | \$2.00 |
| Cancelled | (400,000) | \$1.00 |
| Expired | - | - |
| Exercised | (100,000) | \$0.05 |
| Outstanding, January 1, 2009 | 3,941,510 | \$ 1.33 |
| Granted | - | - |
| Cancelled | (110,000) | \$2.00 |
| Expired | - | - |
| Exercised | (200,000) | \$0.05 |
| Outstanding, December 31, 2009 | 3,631,510 | \$1.38 |
| Options Exercisable, December 31, 2009 | 3,431,510 | \$1.13 |

A summary of the Northsight option plan is as follows:

| | Shares | Weighted Average Exercise Price |
|--|---------------|--|
| Outstanding, January 1, 2008 | - | - |
| Granted | 1,200,000 | \$0.50 |
| Cancelled | (617,223) | \$0.50 |
| Expired | - | - |
| Exercised | - | - |
| Outstanding, January 1, 2009 | 582,777 | \$0.50 |
| Granted | - | - |
| Cancelled | (562,777) | \$0.50 |
| Expired | - | - |
| Exercised | - | - |
| Outstanding, December 31, 2009 | 20,000 | \$ 0.50 |
| Options Exercisable, December 31, 2009 | 6,667 | \$ 0.50 |

If all of the Northsight options outstanding at December 31, 2009 were exercised, the impact on the minority interest would be immaterial.

In December 2007, the SEC issued Staff Accounting Bulletin (“SAB”) 110 which was issued to express the understanding that the use of a “simplified” method, as discussed in SAB 107 in developing an estimate of expected term of “plain vanilla” share options in accordance with ASC 718 would be acceptable beyond December 31, 2007. The Company adopted this standard beginning January 2008, and it did not have a material impact on the Company’s consolidated financial statements.

The fair value of each option award is estimated on the date of grant using a Black-Scholes option pricing model that uses the assumptions noted in the table below. Because this option valuation model incorporates ranges of assumptions for inputs, those ranges are disclosed above. The Company utilizes historical volatility of other entities in a similar line of business for a period commensurate with the contractual term of the underlying financial instruments and used daily intervals for price observations. The Company will continue to consider the volatilities of those entities unless circumstances change such that the identified entities are no longer similar to the Company or until there is sufficient information available to utilize the Company’s own stock volatility. The risk-free rate for periods within the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The Company believes these estimates and assumptions are reliable. However, these estimates and assumptions may change in the future based on actual experience as well as market conditions.

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Warrants

At December 31, 2008, the following warrants to purchase common stock were outstanding:

| Number of common shares covered by warrants | Exercise Price | Expiration Date |
|--|---------------------------|----------------------------|
| 1,332,500 | \$ 4.00 | May 31, 2010 |
| 1,332,500 | 2.00 | May 31, 2010 |
| 150,000 | 1.00 | July 6, 2010 |
| <u>2,815,000</u> | | |

During the year ended December 31, 2009 and 2008 the Company did not issue any warrants.

NOTE 9 – INCOME TAXES

At December 31, 2008, the Company estimated a total 2008 income tax expense of \$640,000 of which \$85,000 was payable at December 31, 2008. Actual taxes during 2008 were \$489,000. The estimated tax loss and corresponding tax benefit for the year ended December 31, 2009 is as follows:

Statutory Rate Reconciliation

| | |
|----------------------------------|---------------|
| Federal Rate | 34.00% |
| State Rate | 4.63% |
| Federal benefit of State Rate | (1.57)% |
| Net Effective Rate | <u>37.06%</u> |

Tax asset recognition (in thousands):

| | |
|---|-----------------|
| Loss reported on financials before taxes | \$ (3,403) |
| Tax adjustments: | |
| Non-deductible impairment expense | 1,210 |
| Stock option expense | 116 |
| Entertainment and other items | 25 |
| Adjusted taxable loss | (2,052) |
| Net Effective Rate | <u>37.06%</u> |
| Tax Benefit from Loss Carryback | <u>\$ (760)</u> |
| Refund expected from 2008 tax payment | \$ 483 |
| Additional potential refund not recorded as a deferred tax asset | 277 |
| Tax Benefit | <u>\$ 760</u> |

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Our provision for federal and foreign income tax expense consisted of the following components:

| (in thousands) | 2009 | 2008 |
|---------------------------------|-----------------|------------|
| Federal income taxes (benefit): | | |
| Current | \$ (433) | 566 |
| Deferred | (273) | - |
| Total Federal income taxes | (706) | 566 |
| State income taxes: | | |
| Current | (50) | 74 |
| Deferred | (4) | - |
| Total state income taxes | (54) | 74 |
| Total Income Taxes | <u>\$ (760)</u> | <u>640</u> |

Total deferred tax asset of \$277,000 is not recognized, since management has determined the tax benefit cannot be reasonably assured of being used in the near future.

NOTE 10 – DISCONTINUED OPERATIONS

During the year ended December 31, 2009, the Company decided to shift its focus from the short term residential mortgage banking and ownership of residential rental property to the Water Project. In order to assist in the funding of the Water Project, the Company began an orderly liquidation of its mortgage and real estate assets. It is expected that this liquidation will be completed by December 31, 2010.

The assets to be liquidated are presented at the lower of cost or current market values, as of December 31, 2009 and are detailed as follows:

| (in thousands) | Dec 31, 2009 |
|---|-----------------|
| Mortgages receivable | \$ 371 |
| Thomas Park project | 2,962 |
| Other real estate owned | <u>1,529</u> |
| Subtotal | 4,862 |
| Less allowances and depreciation | <u>(1,381)</u> |
| Net book value of property to sell | \$ 3,481 |
| Less amounts owed on real estate to be sold | <u>(950)</u> |
| Net assets held for sale | <u>\$ 2,531</u> |

During the year ended December 31, 2009 and 2008, the Company recognized a loss on disposal of real estate of \$250,000 and \$8,000, respectively.

During the year ended December 31, 2009 and 2008, the Company had \$206,000 and \$1,035,000 in revenue, respectively.

Because it is Management's estimate that the above assets to be sold are stated at current fair market value, when these assets are sold it is projected not to be a further gain or loss. However, market conditions can change which would then cause a gain or loss to be recognized upon sale.

These assets are held the Company's subsidiaries Northsight and Southie.

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NOTE 11 - COMMITMENTS AND CONTINGENCIES*Operating Leases*

In August 2005, the Company along with its subsidiary, Northsight entered into an office lease for the Phoenix operations for a monthly payment of \$6,697, plus pass throughs, per month. The lease expired July 31, 2010. In July 2009, the Company negotiated an early termination of this lease for a onetime payment of \$25,000.

In February 2008, the Company along with its subsidiary, Northsight opened offices at 2000 S. Colorado Blvd, Suite 200, Denver, Colorado. The lease for this office is \$4,701 per month, plus pass throughs. The lease expires February 28, 2011.

The amounts due at the base rate are as follows:

| <u>Period</u> | <u>Amount Due</u> |
|---------------|-------------------|
| 2010 | \$ 57,000 |
| 2011 | \$ 7,000 |

The Company also has equipment and software leases with the following commitments:

| <u>Period</u> | <u>Amount Due</u> |
|---------------|-------------------|
| 2010 | \$ 6,000 |
| 2011 | \$ 5,000 |

For the years ended December 31, 2009 and 2008, respectively, total office, equipment and facilities rental was \$165,000 and 197,000.

Bank Accounts

As of May 19, 2008, Southie acquired a \$1,200,000 construction loan with Mt. Washington Cooperative Bank for the development of the Thomas Park Property. The loan is due on June 1, 2010 with monthly interest only payments, at prime plus 2% interest rate and an interest rate floor of 7%. As of December 31, 2009, the balance owed on the loan was \$950,000. Previously this loan was due on November 19, 2009 but was extended to June 1, 2010. As part of the agreement to extend the loan a principal reduction was due and an establishment of a restricted cash account to cover interest payments until June 1, 2010. The restricted cash account was not established until January 12, 2010 and totaled \$46,000.

HCIC Holdings, LLC – Joint Venture

On August 17, 2009, Two Rivers through its wholly owned subsidiary TRWC and TRB formed HCIC, a joint venture. Under the terms of the Joint Venture agreements, the Company, at the Company's sole discretion, can contribute up to \$2,850,000 in cash. As of December 31, 2009 the Company has contributed \$1,807,000. Since it is the Company's intent to fund the Joint Venture as required up to the maximum of \$2,850,000, the Company has recognized the \$2,850,000 as their capital contribution to the Joint Venture. The capital contribution was eliminated in the consolidation with HCIC.

Before the formation of the HCIC on August 17, 2009, TRB paid \$130,000 to 93% of the shareholders of the Mutual Ditch Company for the right to purchase the shares of the Mutual Ditch Company. During the three months ended September 30, 2009, HCIC paid \$70,000 to extend the option to purchase land and water shares from shareholders of the Mutual Ditch Company. If the land and water shares are purchased, the option payments will reduce the purchase price. If these options are not exercised by HCIC, then the full option payments of \$210,000 will be forfeited by HCIC. Subsequent to December 31, 2009, options to purchase 41% of the Mutual Ditch were exercised, and it is the Company's intent to exercise all of the options.

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Two Rivers has a 401(k) profit sharing plan (the "Plan"). Subject to limitations, eligible employees may make voluntary contributions to the Plan. The Company may, at its discretion, make additional contributions to the Plan. The Company did not contribute during the years ended December 31, 2009 or December 31, 2008.

NOTE 12 – RELATED PARTY TRANSACTIONS

Up until June 1, 2009, the Company rented part of the CEO's private home for the CEO's office for \$3,500 per month. Based on the square footage, furniture and fixtures and amenities, Management believes that this rent payment approximates the fair market value. This payment was terminated effective, June 1, 2009 and there are no plans to re-instate the rental payment to the CEO.

In August 2009, the Company signed a one year lease for office space to be used by Two Rivers Water Company in Walsenburg Colorado. The rate is \$600 per month. The building is owned by an officer of a subsidiary of the Company. Management believes that this rent payment approximates the fair market value.

On August 18, 2009, the Company loaned \$110,118 to an individual who was subsequently appointed as an officer of a subsidiary of the Company. The note was secured by cattle and 200,000 shares of the Company's common stock. On August 24, 2009, the Company loaned an additional \$11,840 to the same officer using the same collateral being held against the August 18, 2009 note. The notes were due in six months and had an annual interest rate of 5%. On August 19, 2009, the individual who the Company loaned money was appointed an officer of one of the Company's subsidiaries. Due to the limitations of having an officer borrow funds from the Company where that person is an officer, the Company requested repayment of the notes from the officer, which were paid in full with interest on November 10, 2009. On November 10, 2009, the Company purchased 320 acres from the officer for \$260,000. The Company deems this purchase strategic to its expansion in the water business. An independent appraisal valued the land at \$310,000.

NOTE 13 – LEGAL PROCEEDINGS

The Company is a co-defendant in a lawsuit filed on April 2, 2008 in Jackson County Circuit Court in Missouri. The Company loaned money to Lydia Carson (borrower) to purchase a home in Kansas City Missouri. The plaintiffs (Devoe) claim they have a superior lien on the property that was in place before the borrower borrowed money from the Company for the purchase. On December 31, 2008, the amount owed by Lydia Carson to the Company is \$253,000 (note balance of \$315,000 less escrow held of \$62,000). Our attorneys believe that we have a first lien position and are in the process of filing for a summary judgment in our favor.

On February 3, 2009, Northsight, Inc. filed a civil action in Boulder County District Court against Raina Reinholdt, Marilyn Reinholdt, Mary Ann Hocker, Brooklyn Heights Homes, LLC, EZ Loans, LLC, Greenland Homes Development, LLC, Impresto, LLC, Jaguar Associated Group, LLC, Quiklend, LLC, UR Funded II, LLC, Xact Funding, LLC, Windsor Investment Group, LLC, seeking damages for fraudulent representation, civil conspiracy and violation of the Colorado Organized Crime Control Act. Northsight is currently awaiting responsive pleadings from the defendants.

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On February 4, 2009, Northsight, Inc. filed a civil action against John Reinholdt, II and Tanya Reinholdt seeking to invalidate the transfer of two improved parcels of real property from John Reinholdt, II to his wife, Tanya Reinholdt for no consideration. The lawsuit also seeks to foreclose Northsight's judgment lien attached to both properties. Northsight received default judgments against the defendants.

On March 5, 2009, Northsight moved to intervene in a pending civil action by Colorado State Bank and Trust against Welend Associated Group, LLC, another Jaguar Group, LLC affiliate, currently pending in Denver District Court. Northsight seeks a judgment against Welend for breach of the terms of the promissory note and security agreement dated December 13, 2007 between Welend and Northsight. Northsight previously obtained a judgment against Jaguar Group, LLC as a result of its breach of the same note and security agreement but because Welend had filed a Chapter 11 bankruptcy case at the time, Northsight was stayed from joining Welend as a defendant. Because the bankruptcy case was recently dismissed, Northsight is now able to bring its action against Welend within the context of a pending receivership action in Denver District Court which consolidates all civil actions against Welend. (See Note 4)

Morrow Suit

The Company was notified in September, 2009 that it was named as a defendant in a lawsuit that alleges either the Company or another third party bank did not have a proper promissory note and deed of trust against a short-term mortgage loan made to a borrower in April, 2008 ("Morrow" loan and suit). After the Morrow loan was made by the Company, the note was improperly transferred to Jaguar. When the improper transfer was discovered by the Company, the Company requested Jaguar to return all documents to the Company or fund the loan. On August 4, 2008, Jaguar re-assigned the note and deed of trust back to the Company. However, Jaguar never returned to the Company the original lending file and documentation. During the period of time that Jaguar was in possession of the Morrow file, the lawsuit alleges that Jaguar used the Morrow note and deed of trust to obtain money from another third-party bank.

Morrow sold the property representing the security interest via the deed of trust in the note in February 2009. Closing occurred through a title company with title insurance issued. At the closing, the Company received \$77,000 as payoff on the Morrow note. Therefore, the other third party bank did not receive any proceeds. Presently the third party bank is suing the current owner of the property that Morrow sold for payment on the note. The property owner has filed a complaint in State of Colorado, Adam County District Court naming Northsight and the third party bank as defendants. The plaintiff seeks either Northsight to pay the third party bank or for the third party bank to release its claim to the property. If Northsight is not successful in its defense, then its exposure is \$77,000 plus potential fees and interest.

The Company believes it properly received the proceeds and is being represented by legal counsel to defend its position. A contingency exists with respect to this matter, the ultimate resolution of which cannot be presently determined.

There are no other legal actions that name the Company and/or its officers and directors as defendants.

Two Rivers Water Company

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NOTE 14 – SUBSEQUENT EVENTS

This section includes all subsequent events through the date the financial statements were available to be issued.

The Company's board convened a meeting on February 26, 2010 and passed the following resolutions:

- Approval of the private placements to accredited investors. The Company offered a private placement in September 2009 for \$1.50 per share and raised \$150,000. Because a new private placement was issued on January 5, 2010 at \$1.00/share, the board approved the September 2009 subscribers to receive shares at \$1.00/share. The Board approved both private placements. The January 5, 2010 private placement is for a maximum offering of 5,000,000 shares. It expired on February 28, 2010; however the board extended the offering to April 30, 2010.
- Approval of the issuance of 500,000 shares of the Company's stock as part of a purchase of stock in the Mutual Ditch Company and associated land.
- Approval of financing received from the sellers of shares in the Mutual Ditch Company. The financing is interest only at 6% to 7% per annum, interest due monthly, and the principal due March 31, 2013. One note is a \$72,000 convertible note, at the option of the holder, at \$1 per share for each \$1 of debt.
- Approval of a \$215,000 short term promissory note payable to an individual providing financing for purchase of shares of the Mutual Ditch Company and associated land. Interest is at 6% per annum and also the Company assigned the 250,000 shares of its stock it held for collateral in the Grizzle note.
- Conversion of the Grizzle Note: In order to receive the \$215,000 loan from a private party, the Board authorized the assignment of the Company's collateral in the Grizzle note to the lender. Further, the Board authorized the full release of the note receivable from Grizzle. The Company intends to recognize the fair value of the note receivable released as an additional cost of the asset for the quarter ending March 31, 2010.
- Approval of the transfer of Southie as a 100% owned subsidiary of Two Rivers to being a 100% owned subsidiary of Northsight, effective January 1, 2010.
- Extension of existing warrants. The warrants outstanding have been extended to an expiration date of December 31, 2010.
- Approval to begin the application process to have the Company's stock trade on the American Stock Exchange.
- Approval of the granting of 2,400,000 restricted stock units to key executives and Board members.
- Approval of taking the existing stock options held by the current Company Board and re-issue as restricted stock units. This represents a conversion of 1,880,948 stock options to restricted stock options.

Subsequent to December 31, 2009 and through March 15, 2010, the Company has sold \$1,260,000 in its current private placement, representing 1,260,000 common stock shares to be issued.

Exhibit 31.1

CERTIFICATION PURSUANT TO 18 U.S.C. ss. 1350, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John McKowen, certify that:

1. I have reviewed this annual report on Form 10-K of Two Rivers Water Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

Dated: March 30, 2010

By: /s/ John McKowen

Chief Executive Officer and Chairman of the Board

Exhibit 31.2

CERTIFICATION PURSUANT TO 18 U.S.C. ss. 1350, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Wayne Harding, certify that:

1. I have reviewed this annual report on Form 10-K of Two Rivers Water Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

Dated: March 30, 2010

By: /s/ Wayne Harding
Chief Financial Officer & Principal Accounting Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Two Rivers Water Company on Form 10-K for the year ended December 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John McKowen Chief Executive Officer and Chairman of the Board of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 30, 2010

By: /s/ John McKowen

Chief Executive Officer and Chairman of the Board

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Two Rivers Water Company on Form 10-K for the year ended December 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Wayne Harding, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 30, 2010

By: /s/ Wayne Harding
Chief Financial Officer & Principal Accounting Officer

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FORM 10-K

TWO RIVERS WATER Co - TURV

Filed: March 30, 2011 (period: December 31, 2010)

Annual report which provides a comprehensive overview of the company for the past year

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

Or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 000-51139



(Exact name of registrant as specified in its charter)

Colorado
State or other jurisdiction of
incorporation or organization

13-4228144
I.R.S. Employer
Identification No.

2000 South Colorado Boulevard, Annex Ste 420,
Denver, CO 80222

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code:
(303)222-1000

Title of each class registered

Not Applicable

Securities registered pursuant to Section 12(b) of the Act:

Name of each exchange on
which registered

Not Applicable

Securities registered pursuant to Section 12(g) of the Act:
Common Stock
(Title of class)

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 not 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 (ss. 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One).

| | | | |
|--|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer (Do not check if a smaller reporting company) | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The aggregate market value of voting stock held by non-affiliates of the registrant was approximately \$38,986,000 as of December 31, 2010.

There were 20,980,530 shares outstanding of the registrant's Common Stock as of March 18, 2011.

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Note about Forward-Looking Statements

This From 10-K contains forward-looking statements, such as statements relating to our financial condition, results of operations, plans, objectives, future performance and business operations. These statements relate to expectations concerning matters that are not historical facts. These forward-looking statements reflect our current views and expectations based largely upon the information currently available to us and are subject to inherent risks and uncertainties. Although we believe our expectations are based on reasonable assumptions, they are not guarantees of future performance and there are a number of important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. By making these forward-looking statements, we do not undertake to update them in any manner except as may be required by our disclosure obligations in filings we make with the Securities and Exchange Commission under the Federal securities laws. Our actual results may differ materially from our forward-looking statements.

PART I

ITEM 1. BUSINESS

GENERAL

The following is a summary of some of the information contained in this document. Unless the context requires otherwise, references in this document to “Two Rivers Water Company,” “Two Rivers,” or the “Company” is to Two Rivers Water Company and its subsidiaries.

Two Rivers was incorporated in December 2002 in the state of Colorado. The Company was formerly known as Navidec Financial Services, Inc. until it changed its name on November 19, 2009 to Two Rivers Water Company. The Company’s operations are centered in Colorado.

Two Rivers maintains a website at www.2riverswater.com, which is not incorporated in and is not a part of this report.

Two Rivers currently operates farming operations along with a water acquisition, development and distribution business in southern Colorado.

On August 17, 2009, HCIC Holdings, LLC (“HCIC”), a Colorado limited liability company, was formed to acquire and operate a water business consisting of ownership of water rights, storage of water and distribution of water (the “Water Business”). Upon formation, Two Rivers owned 50% of HCIC and a non-related group owned the other 50%. On September 14, 2010, Two Rivers purchased the 50% interest of the non-related group; therefore, Two Rivers now owns 100% of HCIC, through its 100% owned subsidiary, TRWC, Inc.

On January 5, 2010 the Board of Directors of the Company (the “Board”) authorized to offer the Company’s restricted common stock at \$1.00/share. The maximum offering was 5,000,000 shares, with no minimum. This offering was closed on August 31, 2010 and sold 2,900,000 shares, raised \$2,400,000 and issued 500,000 shares as a partial payment for land and water shares.

On March 17, 2010, Two Rivers formed Two Rivers Farms, LLC (“Farms”) to acquire and operate agriculture land either as a sole operator or in joint venture with other individuals and companies (the “Farming Business”). Two Rivers is Farms’ sole member and owner. Two Rivers intends to hold whatever ownership interest it has in the Farming Business through Farms. Further, Two Rivers intends to expand the Farming Business through one or more entities holding farming and water assets with Farms being the operator.

Two Rivers Water Company 2010 Annual Report - 10K

On January 21, 2011, the Company formed Two Rivers Farms F-1, LLC to dedicate 500 acres of farmland and associated water rights to grow feed corn beginning with the 2011 growing season. In February, 2011, the Company raised \$2,000,000 through a convertible debt offering in order to fund the transfer of farming land, Mutual Ditch Company water shares, irrigation, land preparation and farming equipment for the 500 acres.

On March 17, 2010, the Company formed Two Rivers Energy, LLC (“Energy”), a Colorado limited liability company, to potentially produce alternative energy on land owned by the Company, or the Company’s subsidiaries. Two Rivers is Energy’s sole member and owner. Two Rivers intends to hold whatever ownership interest it has in energy related business within Two Rivers Energy, LLC.

On June 30, 2010, the Company sold its 100% interest in Legendary Investment Group, LLC (“Legendary”) to its acting broker, a previous employee of Legendary, for a sales price of \$9,000 plus the buyer assuming the office lease.

On July 13, 2010, the Company formed Two Rivers Water, LLC, (“Water”) a Colorado limited liability company, to secure additional water rights, rehabilitate water storage structures and to develop one or more special water districts.

Two Rivers has purchased the available outstanding shares of Huerfano-Cucharas Irrigation Company; a Colorado Mutual Ditch Company (the “Mutual Ditch Company”) located in Huerfano and Pueblo counties in the State of Colorado and additional land, which would assist in perfecting water rights and provide additional water resources. As of December 31, 2010, HCIC had a 91% ownership in the Mutual Ditch Company.

The Mutual Ditch Company owns a large privately held, on-stream reservoir of 41,200 acre feet capacity with associated direct flow and storage rights and a mutual ditch water distribution system that holds easement rights into the Arkansas River. The Mutual Ditch Company also owns additional, smaller water storage facilities.

OUR FARMING BUSINESS

The Company, through its 100% owned subsidiary Farms operates farms in Pueblo County, Colorado primarily growing U.S. No. 2 yellow corn which is used for animal feed. The land being farmed is owned by a 100% subsidiary, Two Rivers Farms F-1, LLC (“F-1”). F-1 has entered into a farming lease (“Farm Lease”) with Farms. The Farm Lease shall be for a three year growing season, commencing in 2011 and ending in 2013. The Farm Lease calls for Farms to pay F-1 an annual lease payment of \$200 per acre plus an additional 33 1/3% of the gross profits from each annual grain crop. Gross profits are defined as gross revenue less normal operating expenses, but also include an adjustment for depreciation in favor of Farms on all machinery and equipment including irrigation equipment owned by F-1. The annual lease payment is due on February 1st of each year and begins on February 1, 2012.

Farms intends to plant U.S. No. 2 yellow corn on the leased farmland during the term of the lease. Farms does not store its corn on Farms’ premises. Farms will ship its corn via truck at the time of harvest and will sell its corn for cash to feedlots located in Rocky Ford and Ordway, Colorado. Farms purchases Multi-Peril Crop Insurance (“MPCI”) and a Revenue Assurance (“RA”) plan. MPCI protects against crop yield losses by allowing participating producers to insure a certain percentage of historical crop production. MPCI protects crops against all natural perils including adverse weather, fire, insects, disease, wildlife, earthquake, volcanic eruption and failure of irrigation water due to unavoidable causes. RA provides revenue protection against a decline in market prices as well as a shortfall in production. A loss situation arises when the dollar value of farm production falls below the revenue guarantee. MPCI and RA are provided by private insurance companies and guaranteed by the United States Department of Agriculture. Under the terms of the Farm Lease, Farms agrees to file an assignment of the proceeds with the insurance companies providing direct payment to the Company of the MPCI and RA plans in an amount equal to the \$200 per acre lease payment.

Water is scarce on the plains of southern Colorado. The average annual rainfall during the growing season on the land to be owned by the Company is approximately 8 inches. A high-yielding corn crop requires about 22 inches of additional water via irrigation. Therefore, to successfully grow a high-yielding corn crop additional water must be provided by irrigation. The Company receives 22 inches of average annual irrigation water from the Huerfano River through the Mutual Ditch Company ditch system which diverts water from Huerfano River, a tributary to the Arkansas River. F-1 has a legal right to receive its average annual diversion of water for irrigation water by virtue of its ownership of 1,248 shares, or approximately a 21% interest in the Huerfano-Cucharas Irrigation Company. Properly irrigated farmland, when combined with other best farming practices, produces a significantly higher yield than farmland that is not irrigated. According to the United States Department of Agriculture (“USDA”), the 2010 national average corn yield was 155.8 bushels per acre. The irrigated farmland owned by the Company is capable of producing 200+ bushels per acre.

As the Company intends to continue to acquire farming land and water rights, level the fields using Trimble land leveling systems, purchase & install surge irrigation systems and acquire equipment and tools, necessary to farm the acreage as a fully functioning independent farm capable of producing high-yielding grains.

OUR WATER BUSINESS

As the Company expands its Farming Business, water rights are also acquired. These water rights are first deployed for the Farming Business. Excess water rights may be acquired and will be used as the market demands. As part of acquiring water rights, the Company is in the process of purchasing additional water rights and additional land which would assist in perfecting water rights and provide additional water resources.

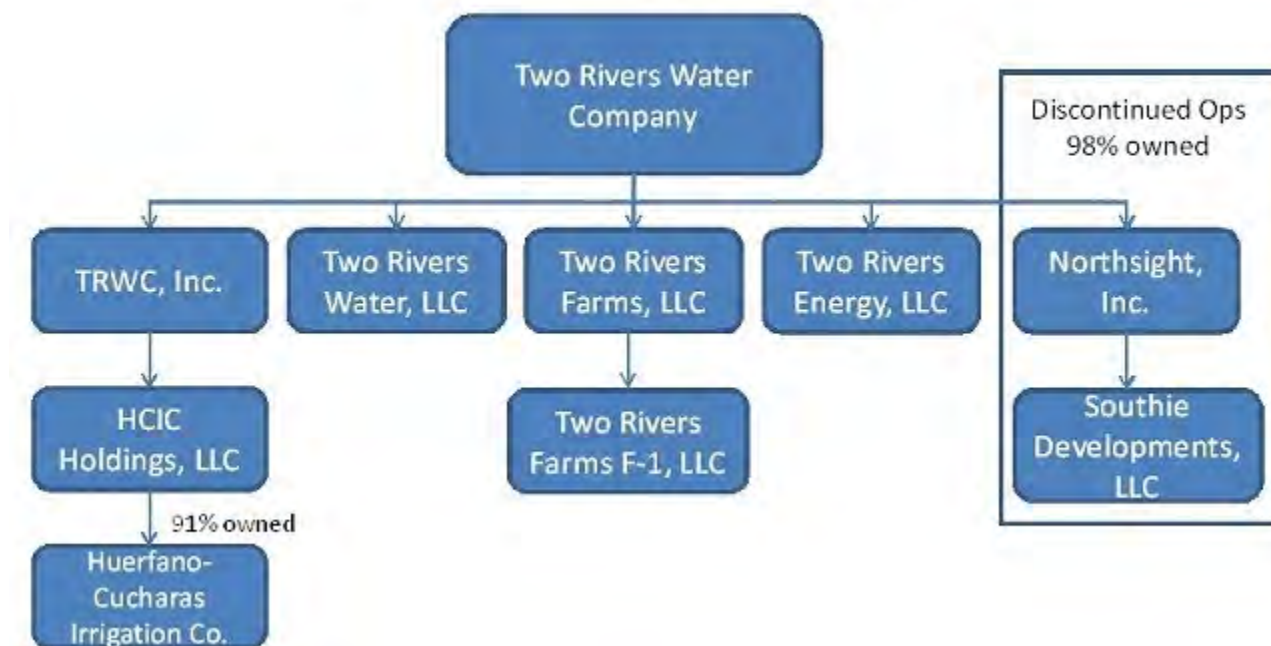
The Company’s objective is to develop the Mutual Ditch Company’s water resources and enhance water storage capacity through a major dam and structure renovation and improvement project. The Company’s proposed renovation and improvement project is expected to result in the dam’s storage capacity being restored to the fully permitted 41,200 acre feet.

The Company’s purchase and subsequent development of the Mutual Ditch Company and related properties is referred to as the “Water Project.” The subsequent development began after the Company acquired a majority interest in the Mutual Ditch Company. Initial development activities have included engaging an engineering consulting firm to prepare the plans and permits for dam construction and the clearing of the ditch distribution system with the associated ditch improvements.

As part of the Water Project, the Company intends to undertake engineering design, dam construction and ditch repair. Once the dam and structure renovation and improvement project is completed and the system is fully operational, the Company intends to assemble an additional strategic portfolio of upstream storage and direct flow water rights and to acquire additional properties and reservoirs in the area. The Company plans to acquire additional upstream water rights and shed superfluous water rights on favorable terms.

SUBSIDIARIES

Two Rivers Water Company - Organization



Two Rivers is the parent company and owns 100% of TRWC, Inc., Two Rivers Farms LLC, Two Rivers Energy LLC and Two Rivers Water LLC. TRWC, Inc. owns 100% of HCIC Holdings, LLC (“HCIC”). HCIC owns 91% of the Mutual Ditch Company as of December 31, 2010. Two Rivers owns 98% of Northsight, Inc. Northsight owns 100% of Southie Developments and Legendary Investment Group.

TRWC, INC. (formerly Two Rivers Water Company)

On July 28, 2009, the Company formed Two Rivers Water Company, a Colorado corporation. On November 19, 2009, with the shareholder approval, the Company changed its parent name from Navidec Financial Services, Inc. to Two Rivers Water Company. Simultaneously the Company changed the original Two Rivers Water Company’s name to TRWC, Inc. (“TRWC”).

HCIC HOLDINGS, LLC

Two Rivers currently operates a water acquisition, development and distribution business in Huerfano County, Colorado through its subsidiary HCIC. At December 31, 2010 Two Rivers owned 100% of HCIC and at December 31, 2009 owned 50% of HCIC. At December 31, 2010 and 2009 HCIC had a 91% and 18% ownership, respectively, in the Mutual Ditch Company.

On August 17, 2009, Two Rivers, through its wholly owned subsidiary TRWC, and Two Rivers Basin, a Colorado limited liability company (“TRB”), formed HCIC, a joint venture.

Due to the Company being the sole contributor of operational cash, without which HCIC would be unable to operate, the Company treated its investment in HCIC as a Variable Interest Entity (“VIE”) at December 31, 2009 and under US GAAP consolidated HCIC.

In coming to the conclusion to consolidate HCIC, the Company researched the authoritative literature as it pertains to the equity method of accounting and joint ventures (ASC 323.10.15). Other considerations to be examined if there is a VIE relationship which pertains to the Company includes representation on the board of directors; participating in policy-making processes, and the interchange of managerial personnel (ASC 323.10.15-6). Further, accounting standards require valuing TRB's contribution in HCIC at fair value. As of December 31, 2009, the Company estimated the value of the TRB options to purchase shares in the Mutual Ditch Company to be \$2,586,000.

On September 14, 2010, TRWC obtained 100% ownership of HCIC. The owners of TRB were issued 7,500,000 shares of the Company's common stock in exchange for 100% of their ownership in HCIC. This transaction was booked at fair value and substantiated by an independent third party appraisal as of March 2, 2010 and updated as of September 30, 2010.

At March 31, 2010, HCIC owned 71% ownership in the Mutual Ditch Company. Since the Company consolidated HCIC, the Mutual Ditch Company was also consolidated in the Company's financials. After a majority share of the Mutual Ditch Company was acquired, the Company ordered an appraisal of the Ditch Company.

On October 29, 2010, the Company received a formal appraisal of the Mutual Ditch Company as follows:

| | |
|--|--------------|
| As of March 2, 2010 (the date HCIC acquired majority interest in the Mutual Ditch Company) | \$24,196,000 |
| As of September 30, 2010 | \$26,217,000 |

The appraisal was performed by a professional engineering firm, an unrelated entity to the Company. The lead appraiser is a senior principal consultant with the engineering firm and is a Professional Engineer and a Certified General Appraiser in Colorado and Arizona. The appraisal covered all of the assets owned by the Mutual Ditch Company using a highest and best use as agriculture. The appraisal approach to value used the sales comparison, cost and income approach.

Upon receiving the appraisal, the Company adjusted its unaudited March 31, 2010, June 30, 2010 and September 30, 2010 balance sheets to reflect the fair value of the Mutual Ditch Company at \$24,196,000. As of December 31, 2010, the Company owned 91% of the Mutual Ditch Company; therefore, 9% of the \$24,196,000 valuation, or \$2,178,000, is recognized in equity as the non-controlling interest in a subsidiary, less previous loss and negative member equity of \$71,000 and its share of income of \$4,000, for a total non-controlling interest in subsidiary of \$2,111,000.

HUERFANO-CUCHARAS IRRIGATION COMPANY

Huerfano-Cucharas Irrigation Company ("Mutual Ditch Company"); a Colorado Mutual Ditch Company is located in Huerfano and Pueblo counties in the State of Colorado. The Mutual Ditch Company owns water rights, water storage and distribution systems in Huerfano and Pueblo counties. As of December 31, 2010, HCIC owned 91% Mutual Ditch Company.

TWO RIVERS FARMS, LLC

The Company formed Two Rivers Farms, LLC (“Farms”) to reintroduce agriculture activity in Huerfano and Pueblo counties in Colorado. With the planned re-construction of the main reservoir (the Cucharas Reservoir) owned by the Mutual Ditch Company, Farms plans to lease water from the Mutual Ditch Company to produce agriculture crops.

Two Rivers intends to hold whatever ownership interest it has in the Farming Business within Two Rivers Farms, LLC and the wholly owned subsidiaries of Farms.

During the 2010 growing season, approximately 400 acres of land were farmed. The crops were wheat and feed corn. During the 2011 season, Farms plans to cultivate 500 acres of land with feed corn as the crop. The farming will be through a farming lease with Two Rivers Farms F-1, LLC.

TWO RIVERS FARMS F-1, LLC

On January 21, 2011 the Company formed Two Rivers Farms F-1, LLC (“F-1” and previously named Two Rivers Farms T-1, LLC) to hold certain farming assets and as an entity to acquire debt for the Company’s expansion of the Farm Business. F-1 leases the farm land and farming assets back to Farms as the operator of farming activities.

TWO RIVERS WATER, LLC

The Company formed Two Rivers Water, LLC to secure additional water rights, rehabilitate water storage structures and to develop one or more special water districts.

TWO RIVERS ENERGY, LLC

The Company formed Two Rivers Energy, LLC to focus on the production of alternative energy. Except for a bank account balance of \$1,000, as of December 31, 2010, there are no assets being held in Energy. Two Rivers intends to hold whatever ownership interest it has in the Energy Business within Two Rivers Energy, LLC.

LEGENDARY INVESTMENT GROUP, LLC – Discontinued Operations (sold June 30, 2010)

Legendary Investment Group, LLC (“Legendary”) was a limited liability company under the laws of the state of Arizona. It was formed in October 2008 and in December 2008 became a 100% owned subsidiary of Northsight. Northsight acquired Legendary based on Northsight’s ability to fund and expand Legendary’s business.

On June 30, 2010, the Company sold its 100% interest in Legendary Investment Group, LLC (“Legendary”) to its acting broker, a previous employee of Legendary, for a sales price of \$9,000 plus the buyer assuming the office lease.

NORTHSIGHT, INC. (formerly Navidec Mortgage Holdings, Inc.) – Discontinued Operations

In early 2009 Northsight discontinued its short term bridge lending in an effort to reduce its exposure to credit risk. No new loans have been granted since early 2009. As of December 31, 2010 and December 31, 2009, Two Rivers had \$227,000 (net of an allowance for impairment of \$144,000) in long term bridge loans outstanding.

SOUTHIE DEVELOPMENTS, LLC – Discontinued Operations

Two Rivers formed a Colorado limited liability company, Southie Developments, LLC, (“Southie”) on January 31, 2008, as its sole and managing member. Southie was organized to develop residential real estate for resale and to own and manage residential real estate acquired via foreclosure of real estate loans owned by Two Rivers. Once a real estate loan defaults and Two Rivers obtains title to the collateral, Two Rivers transfers the property to Southie for development and management. As part of the management and development of the properties transferred to it, Southie honored any existing residential leases and in some cases did expend monies for rehabilitation of the property with the expectation of selling the property in a short time period, usually less than one year. However, if Southie deemed the property to be a good longer term investment, they might hold the property for periods longer than 12 months. At December 31, 2010, Southie owned properties, as discussed below.

In November 2007, Northsight purchased 56 Thomas Park, South Boston, Massachusetts 02127, a residential property, for \$1,200,000 (“Thomas Park Property”). This property was subsequently transferred to Southie. The Thomas Park Property is a 6,000 square foot single family residence that Northsight converted into three 2,000 square foot individual condominium single family units. As of May 19, 2008, Southie acquired a \$1,200,000 construction loan with Mt. Washington Cooperative Bank for the development of the Thomas Park Property. The loan was due on October 1, 2010 with monthly interest only payments, at prime plus 2% interest rate and an interest rate floor of 7%. As of December 31, 2009, the balance owed on the loan was \$950,000. Previously, this loan was due on November 19, 2009, but was extended to October 1, 2010. As part of the agreement to extend the loan a principal reduction was due and an establishment of a restricted cash account to cover interest payments until June 1, 2010. The restricted cash account was not established until January 12, 2010 and totaled \$46,000. As of June 30, 2010, the Company had invested \$3,231,000 including the bank construction loan of \$950,000. During the three months ended September 30, 2010, the Company completed the sale of all three units for a gross sales price of \$2,250,000 and recognized a loss of \$110,000 over the previous impairment of \$1,297,000. Additionally, the Company has reserved \$25,000 against future warranty repairs, which are for repairs up to 12 months from each unit’s sold date. The Mt. Washington Cooperative Bank debt was paid in full and the restricted cash account closed.

At December 31, 2010, Northsight had two vacant lots in Virginia with a carrying value of \$31,000 (net of \$93,000 impairment).

Effective January 1, 2010, Two Rivers transferred 100% of its ownership of Southie to Northsight.

COMPETITION

Water resources in Colorado and most of the Western United States are scarce which make water acquisition strongly competitive. Most of our competitors have significantly greater financial resources, technical expertise and managerial capabilities than us and, consequently, we will be at a competitive disadvantage in storing and distributing water. Competitors' resources could overwhelm our restricted efforts and cause adverse consequences to our operational performance.

EMPLOYEES

At December 31, 2010, the Company and its subsidiaries employed 7 full-time employees and 1 part-time employee. None of these employees are covered by a collective bargaining agreement. The Chief Executive Officer, the Chief Operating Officer and the Chief Financial Officer have entered into employment agreements with Two Rivers. We consider our relationship with our employees to be good.

AVAILABLE INFORMATION

The Company's common stock is traded on the Pink Sheets Market under the symbol "TURV." A copy of our Annual Report on Form 10-K along with copies of our quarterly reports on Form 10-Q and current reports on Form 8-K required to be filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, and can be found on the Edgar database at www.sec.gov. In addition our SEC reports are available free of charge from the Company upon written request to Wayne Harding, CFO, Two Rivers Water Company, Annex Ste. 420, 2000 S Colorado Blvd., Denver CO 80222, or you may retrieve investor information by going to the Company's website at www.2riverswater.com.

ITEM 1A. RISK FACTORS

Risk Factors Related to Forward Looking Statements

Statements made in this filing may not be historical facts and may be “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995.

The Company and Two Rivers believe that, in making any such statement, their expectations are based on reasonable assumptions; however, any such statement may be influenced by factors that could cause actual outcomes and results to be materially different from those projected.

When used in this Memorandum or any presentation concerning the Offering, the words "anticipates," "believes," "expects," "intends," "plans," "estimates," and similar expressions, as they relate to the Company, Two Rivers, or the management of either the Company or Two Rivers, are intended to identify such forward looking statements. Forward-looking statements made in this Memorandum and during any presentation concerning the Offering speak only as of today's date. The Company and Two Rivers expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Two River's securities are highly speculative and should be purchased only by persons who can afford to lose their entire investment. Readers should carefully consider the following risk factors, as well as all other information set forth elsewhere in this annual report, in relation to the shares of its common stock.

Company Risk Factors

Two Rivers can give no assurance of success or profitability to investors.

There is no assurance that the Company will operate profitably. There is no assurance that the Company will generate revenues or profits, or that the market price of its common stock will be increased thereby. During the year ended December 31, 2010, the Company incurred a net loss of \$9,466,000, and during the year ended December 31, 2009, the Company recognized a net loss of \$2,925,000.

We may in the future issue more shares which could cause a loss of control by present management and current stockholders and/or dilution to investors.

There may be substantial dilution to our shareholders as a result of future decisions of our Board to issue shares without shareholder approval for cash, services, or acquisitions at prices solely determined by our Board. Additionally, upon issuance, such shares could represent a majority of the voting power and equity of the Company. The result of such an issuance would be those new stockholders and management would control the Company, and persons unknown could replace management at such time.

Officers and directors may have conflicts of interest which may not be resolved favorably to the Company.

Certain conflicts of interest may exist between the Company and our Officers and Directors. Our Officers and Directors have other business interests to which they devote their attention and may be expected to continue to do so although management time should be devoted to our business. As a result, conflicts of interest may arise that can be resolved only through exercise of such judgment as is consistent with fiduciary duties to us. See [Directors, Executive Officers, and Control Persons](#), and [Conflicts of Interest](#).

Two Rivers has a relatively short operating history, so investors have no way to gauge our long term performance.

Two Rivers was formed in December 2002, and in 2003 acquired control of Northsight, a mortgage broker. Northsight and Southie represent a significant portion of Two Rivers' assets and Two Rivers is in the process of liquidating the majority of Northsight's assets. Two Rivers might not be successful in liquidating Northsight's assets for the value carried on its books.

The inability to attract and retain qualified employees could significantly harm our business.

The market for skilled executive officers and employees knowledgeable in agriculture and water rights is highly competitive and historically has experienced a high rate of turnover. Competition for quality officers and employees may lead to increased hiring and retention costs.

Two Rivers' officers and directors may have conflicts of interests as to corporate opportunities which Two Rivers may not be able or allowed to participate in.

Presently there is no requirement contained in our Articles of Incorporation, Bylaws, or minutes which requires officers and directors of our business to disclose to us business opportunities which come to their attention. Our officers and directors do, however, have a fiduciary duty of loyalty to us to disclose to us any business opportunities which come to their attention, in their capacity as an officer and/or director or otherwise. Excluded from this duty would be opportunities which the person learns about through his involvement as an officer and director of another company. Two Rivers has no intention of merging with or acquiring business opportunity from [any affiliate or officer or director](#). (See [Conflicts of Interest](#).)

Two Rivers has substantial competitors who have an advantage over the Company in resources and management.

Most of Two Rivers' competitors have significantly greater financial resources, technical expertise and managerial capabilities than us and, consequently, Two Rivers will be at a competitive disadvantage in identifying and developing or exploring suitable prospects. Competitors' resources could overwhelm Two Rivers' restricted efforts and cause adverse consequences to Two Rivers' operational performance.

Two Rivers has agreed to indemnification of officers and directors as is provided by Colorado Statutes.

Colorado Statutes provide for the indemnification of our directors, officers, employees, and agents, under certain circumstances, against attorney's fees and other expenses incurred by them in any litigation to which they become a party arising from their association with any activities on our behalf. Two Rivers will also bear the expenses of such litigation for any of our directors, officers, employees, or agents, upon such person's promise to repay us therefore if it is ultimately determined that any such person shall not have been entitled to indemnification. This indemnification policy could result in substantial expenditures by us that Two Rivers will be unable to recoup.

Our directors' liability to us and shareholders is limited.

Colorado Revised Statutes exclude personal liability of Two Rivers' directors and our stockholders for monetary damages for breach of fiduciary duty except in certain specified circumstances. Accordingly, Two Rivers will have a much more limited right of action against our directors that otherwise would be the case. This provision does not affect the liability of any director under federal or applicable state securities laws.

Two Rivers may depend upon outside advisors, who may not be available on reasonable terms and as needed.

To supplement the business experience of Two Rivers' officers and directors, Two Rivers may be required to employ accountants, technical experts, appraisers, attorneys, or other consultants or advisors. Our Board, without any input from stockholders, will make the selection of any such advisors. Furthermore, Two Rivers anticipates that such persons will be engaged on an "as needed" basis without a continuing fiduciary or other obligation to us. In the event Two Rivers considers it necessary to hire outside advisors, it may elect to hire persons who are affiliates, if they are able to provide the required services.

Material weaknesses in our internal control over financial reporting and disclosure controls and procedures could adversely impact the reliability of our internal control over financial reporting.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2010, and this assessment identified material weaknesses in our internal control over financial reporting. As a result, our management concluded that our internal control over financial reporting was not effective as of December 31, 2010. Material weaknesses and other control deficiencies in our internal control over financial reporting and disclosure controls and procedures have led to restatements of our consolidated financial statements. Since the identification of the material weaknesses, we have implemented and are continuing to implement various initiatives intended to improve our internal control over financial reporting and disclosure controls and procedures to address these material weaknesses. No assurance can be given that we will be able to successfully implement remediated controls and procedures or that our remediated controls and procedures will be effective in remedying all identified deficiencies in our internal control over financial reporting and disclosure controls and procedures. There also can be no assurances that these material weaknesses will be rectified or that additional material weaknesses in our internal controls will not be identified. The existence of one or more material weaknesses in our internal control over financial reporting impacts the reliability of our internal control over financial reporting.

Our success will depend, to a large degree, on the expertise and experience of the members of our management team.

Our success in identifying investment opportunities and pursuing and managing such investments is, to a large degree, dependent upon the expertise and experience of the management team and their ability to attract and retain quality personnel.

Risk Factors Relating To The Farm and The Water Business

Insufficient funds to develop the Farming Business

The Company might not have enough funds to expand its Farming Business and the expansion of the Farming Business will be dependent upon raising funds. Without the expansion of the Farming Business, the Company might not be able to meet its general and administration expenses. No assurance can be given that any such funds will be available.

The Farming Business requires significant capital expenditures.

The Farming Business is capital intensive. On an annual basis, we could spend significant sums of money for additions to, or replacement of, land, land improvements, irrigation and farming equipment. We must obtain funds for these capital projects from operations or capital raised. We cannot provide assurance that any sources will be adequate or that the cost of funds will be at levels permitting us to earn a reasonable rate of return.

The Company has little operating history in the Farming Business, so investors have no way to gauge our long term performance.

Neither the Company nor Two Rivers have experience in the Farming Business in Colorado, Two Rivers to date has farmed approximately 400 acres for only one year; therefore, its business plan should be considered highly speculative.

We have substantial competitors who have an advantage over us in resources and management.

Most of our competitors have significantly greater financial resources, technical expertise and managerial capabilities than us and, consequently, we will be at a competitive disadvantage in preparing farm land, growing crops, cultivating and selling the crops. Competitors' resources could overwhelm our restricted efforts and cause adverse consequences to our operational performance.

Dry weather or droughts may adversely affect the collection of our water and ability to grow crops.

Water to grow our crops is obtained from surface runoff and stream flows. In dry years or droughts less water may be available to supply our farming lands and less water may be available for sale/lease, which could substantially impact revenues and cause losses.

The adequacy of our water supplies depends upon a variety of uncontrollable factors.

An adequate water supply is necessary for our Farming Business to be profitable. Our Farming Business is located where dry-farming is not profitable. The adequacy of our water supplies varies from year to year depending upon a variety of factors, including:

- Rainfall, runoff, flood control and availability of reservoir storage;
- Availability of Huerfano River water;
- The amount of useable water stored in reservoirs and groundwater basins;
- The amount of water used by our customers and others;
- Water quality; and
- Legal limitations on production, diversion, storage, conveyance and use.

Two Rivers Water Company 2010 Annual Report - 10K

Population growth and increases in the amount of water used in urban areas have caused increased stress on surface water supplies and groundwater basins.

We obtain our water supply from surface tributaries: the Huerfano and Cucharas Rivers. Our water supply and storage may be subject to interruption or reduction if there is an interruption or reduction in water supplies available to us. Our supply and storage business is dependent upon our ability to meet the requirements of the Colorado Water Engineer's office regarding our water rights priorities.

Water shortages may:

- adversely affect our supply mix, for instance, causing increased reliance upon more expensive water sources; or
- adversely affect our operating costs, for instance, by increasing the cost through the purchase or lease of required water.

This business is heavily regulated and, as a result, decisions by regulatory agencies and changes in laws and regulations can significantly affect our Farming Business.

Regulatory decisions may impact prospective revenues and earnings, affect the timing of the recognition of revenues and expenses, may overturn past decisions used in determining our revenues and expenses and could result in impairment of goodwill. Management continually evaluates the assets, liabilities and revenues subject and provides for allowances and/or reserves as deemed necessary.

Regulatory agencies may also change their rules and policies which may adversely affect our profitability and cash flows.

We may also be subject to fines or penalties if a regulatory agency determines that we have failed to comply with laws, regulations or orders applicable to our water businesses.

Crop insurance may not be available or not adequate to cover losses.

Certain crops and certain land locations are either not eligible or eligible at a reduced level, for crop insurance. We intend to grow crops in areas where full insurance is available, but this cannot be guaranteed. Further, if an insurance claim is made, the amount of funds received might not be sufficient to cover costs and provide debt service.

Adverse weather conditions, natural disasters, crop disease, pests and other natural conditions can impose significant costs and losses on our business.

Corn, our primary grain product, is vulnerable to adverse weather conditions, including hail storms, high winds, tornados, early and late snow storms, floods, drought and temperature extremes, which are quite common but difficult to predict. In addition, grains are vulnerable to crop disease and to pests, which may vary in severity and effect, depending on the stage of production at the time of infection or infestation, the type of treatment applied and climatic conditions. Unfavorable growing conditions can reduce both crop size and quality. These factors can directly impact us by decreasing the quality and yields of crops, increasing our costs and decreasing revenue and gross margins, which may have a material adverse effect on our business, results of operations and financial condition.

We operate in areas subject to natural disasters.

We operate in an area that is prone to floods, droughts and other natural disasters. While we plan to maintain insurance policies to help reduce our financial exposure, a significant seismic event in southern Colorado, where our operations are concentrated, or other natural disasters in Colorado could adversely impact our ability to deliver labor to the crops, deliver crops to the marketplace, receive water and adversely affect our costs of operations and profitability

Our earnings may be affected, to large extents, by markets for crops.

We intend to grow “exchange-traded” grains. The pricing of these grains are quoted in public markets. These quoted prices can vary widely, thereby directly impacting our revenue. There could be a situation when no public market exists. In this case, we would have to find a buyer. If we do not find a buyer, our revenue would be non-existent.

Because growing cycles are highly seasonal, our revenue, cash flows from operations and operating results may fluctuate on a seasonal and quarterly basis.

The farming business is highly seasonal. The seasonal nature of Farms operations results in significant fluctuations in our working capital during the growing and selling cycles. As a result, operating activities during the second and third quarters use significant amounts of cash. In contrast, operating activities for the fourth quarter typically generate cash as we will harvest and sell. We expect to experience, significant variability in net sales, operating cash flows and net income on a quarterly basis.

Our ability to harvest our crop may be compromised by availability of labor and equipment.

When the crop is ready to harvest, we are dependent on labor and contractors for harvesting. This labor source might not be when the crop is ready to harvest. This could delay revenue or decrease revenue of our Farming Business.

We are acquiring assets within the Company within a related party transaction.

Two Rivers is transferring certain land and water (via its ownership in the Mutual Ditch Company) into the Company. The transfer is being made at the estimate of the lower of cost or market value. However, this valuation is not being independently confirmed.

Insufficient funds to develop the infrastructure of the Mutual Ditch Company.

If we are unable to obtain any additional funds through the sale of additional equity, borrowings or government grants we will not be able to operate the water company profitably. No assurance can be given that any such funds will be available or, if available, the cost of obtaining such funds and the resulting effect on our shareholders.

The Water Project requires significant capital expenditures.

The Water Project is capital intensive. On an annual basis, we could spend significant sums of money for additions to, or replacement of, our property, reservoir and equipment. We must obtain funds for these capital projects from operations or capital raised. We cannot provide assurance that any sources will be adequate or that the cost of funds will be at levels permitting us to earn a reasonable rate of return.

The Company has no operating history in the Water Business or the Farming Industry, so investors have no way to gauge our long term performance.

The Company is now focused on farming, storing and distributing water. While certain members of the Company’s Board of Directors have experience in the water business in Colorado, the Company to date has no experience in the water business or in farming and therefore, its business plan should be considered highly speculative.

We have substantial competitors who have an advantage over us in resources and management.

Most of our competitors have significantly greater financial resources, technical expertise and managerial capabilities than us and, consequently, we will be at a competitive disadvantage in storing and distributing water. Competitors' resources could overwhelm our restricted efforts and cause adverse consequences to our operational performance.

Dry weather or droughts may adversely affect the collection of our water.

Our water is obtained from surface runoff and stream flows. In dry years or droughts less water may be available to fill our reservoir structures and be available for sale/lease, which could substantially impact revenues and cause losses.

Our water rights may not yield full flow every year.

Water rights in the west are subject to the Doctrine of Prior Appropriation, which could jeopardize collection of water in dry years for junior water rights. Water rights that are senior (the year 1863 at the earliest) have priority over junior years as to use in dry years and junior rights might not get water or as much water as they wish, if senior rights use it all.

This business is heavily regulated and, as a result, decisions by regulatory agencies and changes in laws and regulations can significantly affect our water business.

Regulatory decisions may impact prospective revenues and earnings, affect the timing of the recognition of revenues and expenses, may overturn past decisions used in determining our revenues and expenses and could result in impairment of goodwill. Management continually evaluates the assets, liabilities and revenues subject and provides for allowances and/or reserves as deemed necessary.

Regulatory agencies may also change their rules and policies which may adversely affect our profitability and cash flows.

We may also be subject to fines or penalties if a regulatory agency determines that we have failed to comply with laws, regulations or orders applicable to our water businesses.

We are required to maintain water quality standards and are subject to regulatory and environmental risks.

We must provide water that meets all federal and state regulatory water quality standards. We face contamination and pollution issues regarding our water supplies. Improved detection technology, increasingly stringent regulatory requirements, and heightened consumer awareness of water quality issues contribute to an environment of increased focus on water quality. We cannot assure you that in the future we will be able to reduce the amounts of contaminants in our water to acceptable levels.

Our water supplies are subject to contamination, including contamination from naturally occurring compounds, pollution from man-made sources and intentional sabotage. We cannot assure you that we will successfully manage these issues, and failure to do so could have a material adverse effect on our future results of operations. We might not be able to recover the costs associated with these liabilities through our rates and charges or insurance or such recovery may not occur in a timely manner.

Our earnings may be affected, to large extents, by weather during different seasons.

The demand for water varies by season. For instance, most water consumption for agriculture usage occurs during the third quarter of each year when weather tends to be hot and dry. During unusually wet weather, our customers generally use less water.

Our proposed water operations are geographically concentrated in Colorado.

Our operations are concentrated in Southern Colorado. As a result, our financial results are subject to political, available water supply, labor, utility cost and regulatory risks, economic conditions and other economic risks affecting Colorado. South Eastern Colorado has been hard hit by the current economic crisis. Colorado is raising taxes in order to balance the state budget and jobs may be lost to other states which are perceived as having a more business friendly climate, thereby exacerbating the impact of the financial crisis in Colorado.

We operate in areas subject to natural disasters.

We operate in an area that is prone to floods, droughts and other natural disasters. While we plan to maintain insurance policies to help reduce our financial exposure, a significant seismic event in southern Colorado, where our operations are concentrated, or other natural disasters in Colorado could adversely impact our ability to deliver water and adversely affect our costs of operations and profitability.

We may lose all of our investment, which, depending on the amount of our investment, could have a material impact on our market valuation.

Two Rivers has made a substantial investment in the Water Business. Our investment in the Water Business will not assure success of the Water Business. If the Water Business fails, Two Rivers and its shareholders will be adversely impacted.

Risk Factors Related To Our Stock

The regulation of penny stocks by SEC and FINRA may discourage the tradability of our securities.

Two Rivers is classified as a “penny stock” company. Our common stock currently trades on the Pink Sheets and is subject to a Securities and Exchange Commission rule that imposes special sales practice requirements upon broker-dealers who sell such securities to persons other than established customers or accredited investors. For purposes of the rule, the phrase “accredited investors” means, in general terms, institutions with assets in excess of \$5,000,000, or individuals having a net worth in excess of \$1,000,000 or having an annual income that exceeds \$200,000 (or that, when combined with a spouse’s income, exceeds \$300,000). For transactions covered by the rule, the broker-dealer must make a special suitability determination for the purchaser and receive the purchaser’s written agreement to the transaction prior to the sale. Effectively, this discourages broker-dealers from executing trades in penny stocks. Consequently, the rule will affect the ability of purchasers in this offering to sell their securities in any market that might develop therefore because it imposes additional regulatory burdens on penny stock transactions.

In addition, the Securities and Exchange Commission has adopted a number of rules to regulate “penny stocks.” Such rules include Rules 3a51-1, 15g-1, 15g-2, 15g-3, 15g-4, 15g-5, 15g-6, 15g-7, and 15g-9 under the Securities and Exchange Act of 1934, as amended. Because Two Rivers’ securities constitute “penny stocks” within the meaning of the rules, the rules would apply to us and our securities. These rules will further affect the ability of owners of shares to sell our securities in any market that might develop for them because it imposes additional regulatory burdens on penny stock transactions.

Shareholders should be aware that, according to Securities and Exchange Commission, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (i) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (ii) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (iii) “boiler room” practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (iv) excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and (v) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired consequent investor losses. Our management is aware of the abuses that have occurred historically in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to our securities.

Rule 144 sales of our shares in the future may have a depressive effect on our stock price.

All of the outstanding shares of common stock held by our present officers, directors, and affiliate stockholders are “restricted securities” within the meaning of Rule 144 under the Securities Act of 1933, as amended. As restricted shares, these shares may be resold only pursuant to an effective Registration Statement or under the requirements of Rule 144 or other applicable exemptions from registration under the Act and as required under applicable state securities laws. Rule 144 provides in essence that a person who has held restricted securities for six months may sell without restriction, except for affiliates, under certain conditions, may sell every three months, in brokerage transactions, a number of shares that does not exceed the greater of 1.0% of a company’s outstanding common stock or the average weekly trading volume during the four calendar weeks prior to the sale. There is no limit on the amount of restricted securities that may be sold by a non-affiliate after the owner has held the restricted securities for a period of six months. A sale under Rule 144 or under any other exemption from the Act, if available, or pursuant to subsequent registration of shares of common stock of present stockholders, may have a depressive effect upon the price of our common stock in any market that may develop.

There may be substantial dilution to our shareholders as a result of future decisions of our Board to issue shares without shareholder approval for cash, services, or acquisitions at prices solely determined by our Board.

Our stock may be thinly traded and as a result shareholders may be unable to sell at or near ask prices or at all if shareholders desire to liquidate shares.

The shares of our common stock are thinly-traded on the OTC Bulletin Board, meaning that the number of persons interested in purchasing our common shares at or near ask prices at any given time may be relatively small. This situation is attributable to a number of factors, including the fact that we are a small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an early stage company or purchase or recommend the purchase of any of our securities until such time as we became more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our securities is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on our securities price. We cannot give you any assurance that a broader or more active public trading market for our common securities will be sustained. Due to these conditions, we can give investors no assurance that they will be able to sell their shares at or near ask prices or at all if their desire to liquidate their securities of our Company.

Item 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. DESCRIPTION OF PROPERTIES

Corporate Offices

In February 2008, Two Rivers, along with its subsidiary Northsight, opened offices at 2000 S. Colorado Blvd, Annex Suite 200, Denver, Colorado 80222. The lease for this office is approximately \$4,701 per month and expired March 15, 2011. In March 2011, Two Rivers moved to a smaller office (Suite 420) within the same address. The current lease has a remaining term of approximately 12 months at \$1,100 per month.

Land

| Location | Legal Description | Acreage | Purchase date |
|-------------------|---|----------------|----------------------|
| Pueblo County, CO | Lots 2-4 Sec 4-22-62 less Lot 4 by WD#1519965 to Hall formerly #22-000-00-135 | 85.3 | 9/17/2009 |
| Pueblo County, CO | 33-21-62 SE4 Less POR sold in WD#123993 to Cook Formerly 12-000-00-042 | 120 | 9/17/2009 |
| Pueblo County, CO | E2 35-22-63 320A | 320 | 2/2/2010 |
| Pueblo County, CO | N2 SE4 26-22-63 Contg 80A formerly 23-000-00-139 | 80 | 2/2/2010 |
| Pueblo County, CO | N2 S2 SE4 26-22-63 (40A) formerly 23-000-00-193 | 40 | 2/2/2010 |
| Pueblo County, CO | 36-22-63 All por of sec 36 desc as: comm fr NW cor of sec, N 88 deg 27 min 59 sec E alg N ln of sec A dist of 23304.98 ft, th S 03 deg 53 min 33 sec E a dist of 5270.92 ft to a sandstone marking th S4 of sec 36 th S 89 deg 24 min 00 sec W alg S ln of sec A dist of 2647.27 ft to SW cor of sec th N 00 deg 09 min 46 sec W alg the W ln of sec A dist of 5224.83 ft to pt of beg less 3.2A for ditch formerly #23-000-00-157 | 297.24 | 2/2/2010 |
| Pueblo County, CO | NW 1/4 31-22-62 150.77A | 150.77 | 2/22/2010 |
| Pueblo County, CO | 25-22-63 SW4 (160A) contg 320A less POR retained by Disanti formerly #23-000-00-072 | 160 | 2/22/2010 |
| Pueblo County, CO | 36-22-63 That part of Sec 36, lying ely of desc Div Ln; comm fr NW cor of Sec 36 monumented with 3/4: x 30" rebar & 3-1/4" alum cap n 88 deg 27 min 59 sec E alg N Ln of SD sec 36 a dist of 2304.98 ft to pt of beg of sd div ln, sd ln runs S 03 dge 53 min 33 sec E a dist of 5270.92 ft to a sandstone being the S4 cor of SD sec 36 + the pt of terminums of ths div ln formerly #23-000-00-157 | 338.86 | 2/22/2010 |
| Pueblo County, CO | A PAR of land being a POR of the SE4 25-22-63 more part desc as follows: Comm from the NE Cor of the SE4 of SD sec 25, S 00 deg 00Min 00Sec E alg the Eln of SD sec 25, a dist of 1905.92 ft; th N 90 deg 00 Min 00sec W, a dist of 844.0 ft to the true pt of beg, th cont N 90 deg 00 Min 00Sec W a dist of 946.00 ft; th N 12 deg 16 min 49 sec E, a dist of 322.91 ft; th N 04 deg 58 min 28 sec W , a dist of 1543.82 ft to the N ln of undercliff rd (county rd); th N 89 deg 18 min 31 sec E alg the S | 41 | 2/22/2010 |
| Walsenburg, CO | TOWNSHIP 28 SOUTH, RANGE 67 WEST OF THE 6TH P.M. Section 19: Part of the SW1/4NW1/4, NW1/4SW1/4, SE1/4NW1/4 being more particularly described as follows: Beginning at the SW comer of the NW1/4SW1/4, thence S 89°41 'E a distance of 1355.7 feet, thence N 0° 33' E a distance of 583.3 feet; thence N 45° W a distance of 333.3 feet; thence N 10° E a distance of 198 feet; thence N 31 ° 15' E a distance of 174.9 feet, thence N 9°E a distance of 152.7 feet, thence East a distance of 263.8 feet thence N45°E a distance of 149.9 feet, thence N 44°48' W a distance of 443.3 feet; thence N25°35'E a distance of 72.6 feet, thence S64°E a distance of 133 feet, thence N9°1 O'E a distance of 201.3 feet, thence N43°W a distance of 168.3 feet, thence N28°34'E a distance of 247.5 feet; thence N44°48'W a distance of 475.8; thence S 89°57'W a distance of 1142.7 feet; to the NW comer of SW1/4NW1/4, thence S0054W a distance of 1306.25 feet to the W1/4 comer of said section 19 and 2612.5 feet to the place of beginning | 76.38 | 10/26/2009 |

Section 24: *SI/2NE1/4NE1/4* less that part conveyed to Huerfano County Hospital District in Book 392, Page 535. Also a tract of land being Part of the SE1/4 and more particularly described as follows: Beginning at the S1/4 corner, thence North 2640 feet, thence East 726 feet; thence south 1996 feet, thence in a Northeasterly direction 75 feet, thence north 1980 feet; thence east 1815 feet, thence south 412 feet; thence in a southwesterly direction along the north right of way of the D&RGW railroad to the point of beginning except that part conveyed to Jesus Maria Lopez in Book 40, Page 78 and Ramon Vigil in Book 33, Page 326 and less that part conveyed to the D&RGW railroad ROW.

| | | | |
|--------------|---|-----|------------|
| Huerfano, CO | S 1/2 of the NW 1/4 of Section 4, Township 27 South, Range 64 West, Huerfano County, Colorado; The SW 1/4 of Section 4, Township 27 South, Range 64 West, Huerfano County, Colorado; the S 1/2 of the NE 1/4 of Section 5, Township 27 South, Range 64 West | 320 | 11/10/2009 |
|--------------|---|-----|------------|

ITEM 3. LEGAL PROCEEDINGS

Carson Suit

The Company was a co-defendant in a lawsuit filed on April 2, 2008 in Jackson County Circuit Court in Missouri. The Company loaned money to Lydia Carson (borrower) to purchase a home in Kansas City Missouri. The plaintiffs claimed they had a superior lien on the property that was in place before the borrower borrowed money from the Company for the purchase. On June 30, 2010, the amount owed by Lydia Carson to the Company was \$253,000 (note balance of \$315,000 less escrow held of \$62,000). On April 27, 2010 the Company received a judgment granting the Company a first lien position. The Company is in the process of collecting the judgment.

Morrow Suit

The Company was notified in September 2009, that it was named as a defendant in a lawsuit that alleges either the Company or another third party bank did not have a proper promissory note and deed of trust against a short-term mortgage loan made to a borrower in April, 2008 ("Morrow" loan and suit). After the Morrow loan was made by the Company, the note was improperly transferred to Jaguar Group, LLC ("Jaguar"). When the improper transfer was discovered by the Company, the Company requested Jaguar to return all documents to the Company or fund the loan. On August 4, 2008, Jaguar re-assigned the note and deed of trust back to the Company. However, Jaguar never returned to the Company the original lending file and documentation. During the period of time that Jaguar was in possession of the Morrow file, the lawsuit alleges that Jaguar used the Morrow note and deed of trust to obtain money from another third-party bank.

Morrow sold the property representing the security interest via the deed of trust in the note in February 2009. Closing occurred through a title company with title insurance issued. At the closing, the Company received \$77,000 as payoff on the Morrow note. Therefore, the other third party bank did not receive any proceeds. Presently the third party bank is suing the current owner of the property that Morrow sold for payment on the note. The property owner has filed a complaint in State of Colorado, Adam County District Court naming Northsight and the third party bank as defendants. The plaintiff seeks either Northsight to pay the third party bank or for the third party bank to release its claim to the property. If Northsight is not successful in its defense, then its exposure is \$77,000 plus potential fees and interest.

The Company believes it properly received the proceeds and is being represented by legal counsel to defend its position. However, to avoid additional legal fees and potential exposure, the Company is in the process of offering a settlement to the plaintiff. A contingency exists with respect to this matter with a contingency recorded for the Company's estimate of the cost of settlement.

There are no other legal actions that name the Company and/or its officers and directors as defendants.

ITEM 4. REMOVED AND RESERVED

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Price Range of Common Stock

The Company's common stock is presently traded on the over-the-counter market on the OTC Bulletin Board maintained by the Financial Industry Regulatory Authority ("FINRA"). On September 17, 2007, our common stock began trading on the over-the-counter bulletin board. On October 13, 2010, our common stock began trading on the over-the-counter QB market and then subsequently moved to the PINK sheets. The current symbol for the common stock is "TURV." Prior to January 15, 2010, our common stock traded under the symbol "NVDF."

The following table sets forth the range of high and low bid quotations for the common stock of each full quarterly period during the years ended December 31, 2010 and 2009. The quotations were obtained from information published by the FINRA and reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

| Quarter Ended | High | Low |
|----------------------------|---------|---------|
| 2010 | | |
| December 31 st | \$ 2.35 | \$ 1.40 |
| September 30 th | 1.80 | 1.10 |
| June 30 th | 1.40 | 1.05 |
| March 31 st | 1.49 | 1.20 |
| 2009 | | |
| December 31 st | \$ 2.05 | \$ 1.00 |
| September 30 th | 1.53 | 0.45 |
| June 30 th | 0.75 | 0.32 |
| March 31 st | 0.85 | 0.32 |

As of December 31, 2010, there were approximately 270 shareholders of record. We estimate that there are approximately 800 beneficial shareholders. In many instances, a registered stockholder is a broker or other entity holding shares in street name for one or more customers who beneficially own the shares.

Our transfer agent is Computershare, 350 Indiana Street, Suite 800, Golden, Colorado 80401. The telephone number is 303-262-0710.

Dividends

As of the filing of this annual report, we have not paid any cash or stock dividends to shareholders. There are no restrictions which would limit our ability to pay dividends on common equity or that are likely to do so in the future. The Colorado Revised Statutes, however, do prohibit us from declaring dividends where, after giving effect to the distribution of the dividend; we would not be able to pay our debts as they become due in the usual course of business; or our total assets would be less than the sum of the total liabilities plus the amount that would be needed to satisfy the rights of shareholders who have preferential rights superior to those receiving the distribution.

Penny Stock

Penny Stock Regulation Broker-dealer practices in connection with transactions in "penny stocks" are regulated by certain penny stock rules adopted by the Securities and Exchange Commission. Penny stocks generally are equity securities with a price of less than \$5.00. Excluded from the penny stock designation are securities registered on certain national securities exchanges or quoted on NASDAQ, provided that current price and volume information with respect to transactions in such securities is provided by the exchange/system or sold to established customers or accredited investors.

The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in connection with the transaction, and the monthly account statements showing the market value of each penny stock held in the customer's account. In addition, the penny stock rules generally require that prior to a transaction in a penny stock; the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction.

These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for a stock that becomes subject to the penny stock rules. As our securities have become subject to the penny stock rules, investors may find it more difficult to sell their securities.

Annual Shareholders' Meeting

On October 20, 2010, the Company held its Annual Shareholders' Meeting at its offices at 2000 South Colorado Blvd, Annex Suite 200 in Denver, Colorado. The shares necessary for a quorum were present at the meeting and the following proposals were voted on and passed.

To elect directors to our Board of Directors:

| | Number of Shares | | Total Voted |
|-----------------|------------------|----------|--------------------|
| | FOR | WITHHOLD | |
| John R. McKowen | 5,187,029 | 14,555 | 5,201,584 |
| John Stroh, II | 5,187,029 | 14,555 | 5,201,584 |
| Dennis Channer | 5,197,537 | 4,047 | 5,201,584 |
| Gary Barber | 5,197,559 | 4,025 | 5,201,584 |
| Brad Walker | 5,197,559 | 4,025 | 5,201,584 |

To ratify the appointment of our auditors, Schumacher and Associates, Inc.:

| | |
|-------------|------------------|
| For | 7,606,411 |
| Against | 32 |
| Abstain | - |
| Total Voted | <u>7,606,443</u> |

During the year ended December 31, 2010, other than the above proposals, no other matters were submitted to the Company's shareholders for approval.

Recent Sales of Unregistered Securities

We made the following unregistered sales of our securities from January 1, 2010 through December 31, 2010:

| <u>DATE OF SALE</u> | <u>TITLE OF SECURITIES</u> | <u>NO. OF SHARES</u> | <u>CONSIDERATION</u> | <u>CLASS OF PURCHASER</u> |
|---------------------|----------------------------|----------------------|----------------------|---------------------------|
| Jan – Aug 2010 | Common | 2,900,000 | \$2,900,000 | Common |

We made the following restricted stock unit (RSU) grants from January 1, 2010 through December 31, 2010:

| <u>DATE OF ISSUANCE</u> | <u>TITLE OF SECURITIES</u> | <u>NO. OF SHARES</u> | <u>CONSIDERATION</u> | <u>CLASS OF PURCHASER</u> |
|-------------------------|----------------------------|----------------------|----------------------|---------------------------|
| Oct 2010 | Common | 5,713,088 | \$ - | Common |

Exemption From Registration Claimed

All of the sales by us of our unregistered securities were made in reliance upon Regulation D and Section 4(2) of the Securities Act of 1933, as amended (the “1933 Act”). The entity listed above that purchased the unregistered securities was an existing shareholder, known to us and our management, through pre-existing business relationships, as a long standing business associate. The entity was provided access to all material information, which it requested, and all information necessary to verify such information and was afforded access to our management in connection with the purchases. The purchaser of the unregistered securities acquired such securities for investment and not with a view toward distribution, acknowledging such intent to us. All certificates or agreements representing such securities that were issued contained restrictive legends, prohibiting further transfer of the certificates or agreements representing such securities, without such securities either being first registered or otherwise exempt from registration in any further resale or disposition.

Recent Issuance of Options

We issued 20,000 options from January 1, 2010 through December 31, 2010.

Purchases of Equity Securities by the Small Business Issuer and Affiliated Purchasers

Not applicable.

ITEM 6. SELECTED FINANCIAL INFORMATION

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto and the other financial information included elsewhere in this report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward looking statements as a result of any [number of factors, including those set forth under Risk Factors](#) and elsewhere in this report.

Plan of Operations - Overview

During 2010, Two Rivers focused its business development activities on expanding its farming and water business. With funds generated from the liquidation of real estate promissory notes receivable and selling residential real estate, Two Rivers entered into the Farming and Water Business beginning in July 2009 and has dedicated the majority of its resources to expanding the Farming and Water Business. [There can be no assurances that any of our investments will be successful. \(See Risk Factors.\)](#)

The Company is in the process of raising additional capital through debt and equity offerings to expand its Farming and Water Business. During 2010, the Company completed a \$2,900,000 capital raise through a private placement of its common shares to accredited investors. The net cash to the Company after offering costs was \$2,204,000.

In early 2011, the Company raised an additional \$2,000,000 through a convertible note offering to accredited investors. The net to the Company after direct cost of the offering was approximately \$1,780,000.

We believe that there is opportunity to create shareholder value through the proper expansion and management of farming and water assets. We plan to only grow commodity grains that can benefit from the increasing world demand for food and serve as a hedge against inflation and a weak U.S. Dollar.

With the Farming Business, we will be growing our Water Business. In the western U.S., water is inextricably tied to farming. We own our water assets and plan to expand our water ownership.

We will grow our Farming Business through the purchase of distressed water and irrigated farmland in southern Colorado. These plans are dependent upon the acquisition of funds.

Results of Operations

For the Year Ended December 31, 2010 Compared to the Year Ended December 31, 2009

Our revenues are a result of the activities of our Farming and Water Business.

During the year ended December 31, 2010, we recognized revenues from continuing operations of \$196,000, compared to \$11,000 in revenues from continuing operations during the year ended December 31, 2009. The increase of \$185,000 was a result of the Company's new focus in agriculture and water. During the year ended December 31, 2010, we recognized direct cost of revenue of \$285,000 to produce a \$89,000 negative gross margin. This was a result of farming startup costs with new farming land acquired.

Two Rivers Water Company 2010 Annual Report - 10K

During the year ended December 31, 2010, operating expenses from continuing operations were \$7,518,000 compared to \$2,180,000 for the year ended December 31, 2009. The increase of \$5,338,000 was primarily a result of stock based compensation of \$4,841,000 (compared to \$118,000 for the year ended December 31, 2009) and an increase in expenses related to the Farm and Water Business. These figures produced a loss from continuing operations of \$8,516,000 for the year ended December 31, 2010 compared to a loss from operations of \$1,834,000 for the year ended December 31, 2009. For the year ended December 31, 2011, we anticipate stock based compensation to reduce to approximately \$2,000,000 while our operating expenses increase due to increased farming activity.

During the year ended December 31, 2010 the Company continued to discontinue its operations in the real estate and mortgage businesses. This segment is classified as Discontinued Operations in the Statement of Consolidated Operations. During the year ended December 31, 2010, the Company recognized a loss of \$946,000 compared to a loss of \$1,266,000 for the year ended December 31, 2009. Due to most of our discontinued operations being completed in 2010, we anticipate future loss from Discontinued Operations to decrease substantially.

During the year ended December 31, 2010, we recognized a net loss from both continuing and discontinued operations of \$9,466,000 compared to a net loss of \$2,925,000 during the year ended December 31, 2009. The resulting increased loss of \$6,541,000 in net income was primarily a result of stock based compensation expenses of \$4,841,000, additional interest expense and costs associated with the Company's expansion in the Farm and Water Business.

LIQUIDITY

From the Company's inception through December 31, 2010, we have funded our operations primarily from the following sources:

- Equity and debt proceeds through private placements of Two Rivers securities;
- Revenue generated from operations;
- Loans and lines of credit;
- Sales of residential properties acquired through deed-in-lieu actions;
- Sales of equity investments, and
- Proceeds from the exercise of legacy Navidec, Inc. Options

Cash flow from operations has not historically been sufficient to sustain our operations without the above additional sources of capital. As of December 31, 2010, the Company had cash and cash equivalents of \$645,000. Cash flow consumed by our operating activities totaled \$2,205,000 for the year ended December 31, 2010 compared to operating activities consuming \$1,922,000 for the year ended December 31, 2009.

As of December 31, 2010, the Company had \$699,000 in current assets and \$577,000 in current liabilities. The Company intends to continue with its strategy of liquidating its real estate assets to expand their Farm and Water Business and on offering additional debt and common stock in order to provide additional capital to be used in the support of its operations.

Cash flows used by our investing activities for the year ended December 31, 2010, were \$5,964,000 compared to \$136,000 used for the year ended December 31, 2009. In the year ended December 31, 2010 we used proceeds of \$2,583,000 from the sale of our real estate owned ("REO"), Boston real estate, and other assets held for sale to fund our Farm and Water Business, which included \$8,012,000 for the purchase of land and water shares and \$326,000 for engineering work for the dam reconstruction.

In the year ended December 31, 2009, we used proceeds of \$2,710,000 from the sale of our REOs to fund our Farm and Water Business, which included \$2,711,000 for the purchase of land and water shares and \$163,000 for engineering work for the dam reconstruction.

Net cash produced in financing activities was \$8,198,000 for the year ended December 31, 2010 compared to a production of cash of \$1,800,000 for the year ended December 31, 2009. During 2010 we increased our long-term borrowings by \$6,951,000 through owner financing of the water and land purchase for the Farm and Water Business, paid down \$950,000 in real estate loans concerning our discontinued operations, and sold \$2,202,000 in the Company's common stock in a private placement (net of offering costs) and retired \$5,000 of our common stock through open market purchases.

Subsequent to December 31, 2010 and through March 1, 2011 (when the offering was closed), the Company has sold \$2,000,000 in its current convertible debt private placement.

For the year ended December 31, 2009 from financing activities we generated \$1,800,000 through increased long term borrowings of \$2,175,000, a private placement of \$150,000 and option exercise of \$10,000. The Company paid down \$441,000 in real estate loans and paid \$94,000 to retire its own common shares.

CRITICAL ACCOUNTING POLICIES

Two Rivers has identified the policies below as critical to Two Rivers' business operations and the understanding of Two Rivers results from operations. The impact and any associated risks related to these policies on the Company's business operations is discussed throughout Management's Discussion and Analysis of Financial Conditions and Results of Operations where such policies affect Two Rivers reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see [Note 2 in the Notes to the Consolidated Financial Statements](#). Note that the Company's preparation of this document requires Two Rivers to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of Two Rivers' financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

REVENUE RECOGNITION

Two Rivers follows very specific and detailed guidelines in measuring revenue; however, certain judgments may affect the application of Two Rivers' revenue policy. Revenue results are difficult to predict, and any shortfall in revenue or delay in recognizing revenue could cause Two Rivers' operating results to vary significantly from quarter to quarter and could result in future operating losses.

REVENUES FROM FARMING OPERATIONS

Revenues from farming operations are recognized when sold into the market. All direct expenses related to farming operations are capitalized as inventory and recognized as a direct cost of sale upon the sale of the crops.

ALLOWANCE FOR BAD DEBT

Two Rivers' policy on allowances for bad debt determines the timing and recognition of expenses. The Company follows guidelines that establish allowances based off of historical and account specific trends; however, certain judgments affect the application of Two Rivers' bad debt allowance policy. Two Rivers receivables are recorded net of an allowance for doubtful accounts which requires management to estimate amounts due which may not be collected. This estimate requires consideration of general economic conditions, overall historical trends related to the Company's collection of receivables, customer specific payment history, and customer specific factors affecting their ability to pay amounts due. Management routinely assesses and revises its estimate of the allowance for doubtful accounts. As of year ended December 31, 2010, we had \$237,000 allowances for bad debt and valuation impairments, as follows:

| Allowance for: | | Amount |
|----------------------------------|----|----------------|
| Short Term | | |
| Mortgages | \$ | 144,000 |
| Real Estate owned – depreciation | | - |
| Real Estate owned – impairments | | 93,000 |
| Total | \$ | <u>237,000</u> |

GOODWILL AND INTANGIBLE ASSETS

During the year ended 2009 and subsequently, the Company has acquired water shares in the Mutual Ditch Company, which is considered an intangible asset. Currently, the water shares are recorded at purchase price. Management evaluates the carrying value, and if necessary, will establish an impairment of value to reflect current fair market value. Currently, there are no impairments on the land and water shares.

Under the terms of the HCIC joint venture, the non-related party owning 50% of HCIC, TRB, contributed options on purchasing the Mutual Ditch Company along with purchase agreements for acquiring land. TRB also contributed cash being held in escrow or that had been paid to owners of the shares of the Mutual Ditch Company. The Company valued the TRB's contribution to HCIC at \$2,850,000.

On September 14, 2010, TRWC obtained 100% ownership of HCIC. The owners of TRB were issued 7,500,000 shares of the Company's common stock in exchange for 100% of their ownership in HCIC. This transaction was booked at fair value and substantiated by an appraisal as of March 2, 2010 and September 30, 2010.

At March 31, 2010, HCIC owned 71% ownership in the Mutual Ditch Company. Since the Company consolidated HCIC, the Mutual Ditch Company was also consolidated in the Company's financials. After a majority share of the Mutual Ditch Company was acquired, the Company ordered an appraisal of the Ditch Company.

During the three months ended December 31, 2010, the Company received a formal appraisal of the Mutual Ditch Company as follows:

| | |
|--|--------------|
| As of March 2, 2010 (the date HCIC acquired majority interest in the Mutual Ditch Company) | \$24,196,000 |
| As of September 30, 2010 | \$26,217,000 |

The appraisal was performed by a professional engineering firm, which is an unrelated entity to the Company. The lead appraiser is a senior principal consultant with the engineering firm and is a Professional Engineer and a Certified General Appraiser in Colorado and Arizona. The appraisal covered all of the assets owned by the Mutual Ditch Company using a highest and best use as agriculture. The appraisal approach to value used the sales comparison, cost and income approach.

Upon receiving the appraisal, the Company adjusted its March 31, 2010, June 30, 2010 and September 30, 2010 balance sheet to reflect the fair value of the Mutual Ditch Company at \$24,196,000. As of December 31, 2010, the Company owned 91% of the Mutual Ditch Company; therefore, 9% of the \$24,196,000 valuation, or \$2,178,000, is recognized in equity as the non-controlling interest in a subsidiary, less previous loss and negative member equity of \$71,000 and its share of income of \$4,000, for a total non-controlling interest in subsidiary of \$2,111,000.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Two Rivers is exposed to the impact of interest rate changes and change in the market values of the Company's investments. Based on Two Rivers' market risk sensitive instruments outstanding as of December 31, 2010, as described below, it has determined that there was no material market risk exposure to the Company's consolidated financial position, results of operations, or cash flows as of such date. Two Rivers does not enter into derivatives or other financial instruments for trading or speculative purposes.

INTEREST RATE RISK

At December 31, 2010, the Company's exposure to market rate risk for changes in interest rates relates primarily to its borrowings, as well as, its mortgage services business. Two Rivers has not used derivative financial instruments in its credit facilities. A hypothetical 10% increase in the Prime Rate would not be significant to the Company's financial position, results of operations, or cash flows.

IMPAIRMENT POLICY

At least once every quarter, Two Rivers examines all of their assets for proper valuation and to determine if an allowance for impairment is necessary. In terms of real estate owned, this impairment examination also includes the accumulated depreciation. Management examines market valuations and if an additional impairment is necessary for lower of cost or market, then impairment is booked. However, if Management, based on changes in the market value of the assets, determines the impairment to be over stated, the existing impairment is reduced to reflect management's new estimate of value.

INVESTMENT RISK

From time to time Two Rivers has made investments in equity instruments in companies for business and strategic purposes. These investments, when held, are included in other long-term assets and are accounted for under the cost method since ownership is less than 20% and Two Rivers does not assert significant influence.

INFLATION

Two Rivers does not believe that inflation will have a material negative impact on its future operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to the impact of interest rate changes and change in the market values of our real estate properties. Based on our market risk sensitive instruments outstanding as of December 31, 2010, as described below, it was determined that there was no material market risk exposure to our consolidated financial position, results of operations, or cash flows as of such date. We do not enter into derivatives or other financial instruments for trading or speculative purposes.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Report of the Independent Registered Accounting Firm appears on Page [INSERT PAGE NUMBER] and the Consolidated Financial Statements and Notes to Consolidated Financial Statements appearing at Pages [INSERT PAGE NUMBER] through [INSERT PAGE NUMBER] hereof are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosures Controls and Procedures

We have adopted and maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act, is recorded, processed, summarized and reported within the time periods required under the SEC's rules and forms and that the information is gathered and communicated to our management, including our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), as appropriate, to allow for timely decisions regarding required disclosure.

As required by SEC Rule 15d-15(b), Mr. John McKowen, our Chief Executive Officer and Mr. Wayne Harding, our Chief Financial Officer carried out an evaluation on the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 15d-14 as of the end of the period covered by this report

The Company, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Chief Financial Officer, performed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2010. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, the Company's disclosure controls and procedures were effective as of December 31, 2010.

ITEM 9A(T). CONTROLS AND PROCEDURES

Management's Annual Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the company in accordance with as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made on in accordance with authorizations of our management and directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management's assessment of the effectiveness of the small business issuer's internal control over financial reporting as of the year ended December 31, 2010, is that we believe that internal control over financial reporting has not been effective, and we are in the process of improving controls, to the extent possible given the number of employees. We have identified certain material weaknesses of accounting relating to a shortage of accounting and reporting personnel due to limited financial resources and the size of our Company. This material weakness can lead to the following:

- An inability to ensure there is timely analysis and review of accounting records, spreadsheets, and supporting data; and
- an inability to effectively monitor access to, or maintain effective controls over changes to, certain financial application programs and related data.

Considering the nature and extent of our current operations and any risks or errors in financial reporting under current operations and the fact that we have been a small business with limited employees caused a weakness in internal controls involving the areas disclosed above.

In 2008, we hired a full time in-house Certified Public Accountant, who, as of September 2009, became our Chief Financial Officer and have taken the following steps:

- we have authorized the addition of additional staff members to the finance department to ensure that there are sufficient resources within the department to prepare our financial statements and disclosures in accordance with accounting principles generally accepted in the United States of America; and
- we are in the process of analyzing our processes for all business units and the establishment of formal policies and procedures with necessary segregation of duties, which will establish mitigating controls to compensate for the risk due to lack of segregation of duties.
- In 2010 we established an audit committee to oversee the financial operations and reporting of the Company.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the SEC that permit the Company to provide only management's report in this annual report.

There was no change in our internal control over financial reporting that occurred during the fiscal year ended December 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

The Company has established a Board of Conduct, an Audit Committee Charter and a Governance, Compensation and Nominating Committee Charter. The charter for each committee is filed as an exhibit.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS AND CORPORATE GOVERNANCE; COMPLIANCE WITH SECTION 16 (a) OF THE EXCHANGE ACT

At December 31, 2010, our officers and directors were the individuals listed below:

| | Age | Position | Term |
|-----------------|-----|---|--------|
| John McKowen | 61 | Chief Executive Officer, Chairman of the Board of Directors | Annual |
| Gary Barber (1) | 56 | Chief Operations Officer, President of Two Rivers Water Company, Director | Annual |
| Wayne Harding | 56 | Chief Financial Officer, Corporate Secretary | Annual |
| John Stroh II | 63 | Director | Annual |
| Bradley Walker | 52 | Director | Annual |
| Dennis Channer | 60 | Director | Annual |

(1) Mr. Barber was appointed as Chief Operating Officer and President of Two Rivers Water Company in February, 2011.

Two Rivers officers are elected by the board of directors at the first meeting after each annual meeting of Two Rivers shareholders and hold office until their successors are duly elected and qualified under Two Rivers bylaws.

The directors named above will serve until the next annual meeting of the Company's stockholders. Thereafter, directors will be elected for one-year terms at the annual stockholders' meeting. Officers will hold their positions at the pleasure of the board of directors absent any employment agreement. There is no arrangement or understanding between the directors and officers of the Company and any other person pursuant to which any director or officer was or is to be selected as a director or officer.

The directors and officers of the Company will devote such time to the Company's affairs on an "as needed" basis. As a result, the actual amount of time, which they will devote to the Company's affairs is unknown and is likely to vary substantially from month to month.

BIOGRAPHICAL INFORMATION

Management will devote minimal time to the operations of the Company, and any time spent will be devoted to screening and assessing and, if warranted, negotiating to acquire business opportunities.

JOHN R. MCKOWEN. Mr. McKowen has served as the Chief Executive Officer and a Director and Chairman of the Board of the Company since the Company was founded in December 2002. Mr. McKowen also served as President and Chief Executive Officer of Navidec, Inc. from August 2003 to September 2004 and served as a director of Navidec, Inc., now BPZ, from December 2002 to May 2005. Mr. McKowen was hired by Navidec, Inc. as a financial consultant in 1996 and was involved in the private, public and secondary financing of Navidec, Inc. He served as a financial consultant to Navidec, Inc. until March 1999. Mr. McKowen began his career in the financial services industry 1978. In 1984 Mr. McKowen began working as an independent consultant and has worked in that capacity for the last 23 years. Mr. McKowen received a B.A. in economics from Metropolitan State College.

GARY BARBER. Mr. Barber is originally from Colorado Springs, Colorado, graduating from Manitou Springs High School (1972) and the U.S. Air Force Academy (1976). He has been involved in commercial real estate brokerage, water rights brokerage and consulting to public and private entities. Mr. Barber currently represents the El Paso County Water Authority, the Pikes Peak Regional Water Authority and manages two Metropolitan Districts, quasi-municipal governments formed to provide public services and resolve water issues of various types. He is chairman Arkansas Basin Roundtable, a multi-disciplinary body formed by the Colorado General Assembly in 2005. This collaborative group, comprised of representatives from the counties, cities and special interests in Southern Colorado, is attempting to address the consumptive and non-consumptive water needs of the future. Mr. Barber serves on the Company's Board Audit Committee.

WAYNE HARDING. Mr. Harding has worked with Two Rivers as a controller and handling of its SEC filings since July 28, 2008. On September 11, 2009, Mr. Harding was appointed the Chief Financial Officer and Secretary of Two Rivers. Mr. Harding served on the board of directors, chair of the governance, compensations and audit committees for Aerogrow International (a public company based in Boulder Colorado USA, OTC: AERO) from 2005 – 2007. He has served as vice president business development of Rivet Software since December 2004. From August 2002 to December 2004 Mr. Harding was owner and President of Wayne Harding & Company CPAs and from 2000 until August 2002 he was director-business development of CPA2Biz.

Mr. Harding holds an active CPA license in Colorado and received his BS and MBA degrees from the University of Denver, where he currently serves on the School of Accountancy Advisory Board and head of the Academic Excellence Committee. Mr. Harding also teaches in the University of Denver MBA program on accounting issues. He is also past-President of the Colorado Society of CPAs.

JOHN STROH II. Mr. Stroh received his Bachelor of Science in Business Administration from Colorado State University in 1976. In 1991, he passed the Colorado state Certified Appraiser exam. He received his real estate broker license in the State of Colorado in 1976. Mr. Stroh has been a real estate broker since he received his broker license in 1976. He is the owner/managing broker of Southern Colorado Land and Livestock Company, a real estate management, appraisal, consulting, and brokerage firm.

Mr. Stroh is also an instructor for the Trinidad State Junior College. He teaches real estate courses including water law, broker courses, and mandatory fair housing courses.

Mr. Stroh is Secretary of the Lower Cucharas Water Users Association and Secretary of the Holita Ditch and Reservoir Companies and Secretary of the Walsenburg Ditch Company. He is also Chairperson of the Sangre de Cristo Habitat Partnership Program Committee.

BRAD WALKER. Mr. Walker earned a B.S. degree in Soil Science in 1982 from University Wisconsin-Stevens Point. He worked for the USDA-ARS in Fort Collins as a Research Associate from 1982 to 1985. Mr. Walker first experience as a crop consultant was with Servi-tech beginning in 1985. He started his own consulting firm (AgSkill) in 1986 and today he is still a consultant and President of AgSkill, Inc. Mr. Walker works with growers by checking fields and advising them on fertility management, irrigation management, and pest management. He also designs Nutrient Management Plans for livestock operations for both the EPA and the Colorado Dept. of Public Health & Environment. Mr. Walker works with Lower Arkansas Water Management Association (LAWMA) as a consultant to establish grass on land that is now dry but was previously irrigated. He is also approved by the Colorado Water Courts to evaluate grass stands on land that was previously irrigated. He also conducts contract research, primarily involving pesticide applications on small plots for efficacy and residue evaluations. Mr. Walker serves on the Company's Board Audit Committee.

DENNIS CHANNER. Mr. Channer has 35 years of financial and investment management experience. Since 2001, Mr. Channer has been a Principal at Cornerstone Investment Advisors LLC, a financial planning, portfolio and trust management firm. He served on the board of directors and as chair of the governance, compensation and audit committees for AeroGrow International (a public company based in Boulder Colorado USA, NASDAQ, AERO) in 2007 and 2008. During late 1999 through 2000, he served as a Senior Consultant and Vice President of *Portfolio Management Consultants, Inc.* a provider of wealth management services. Mr. Channer is also the former co-founder, Managing Director, and served as Chairman of the Board of *Investors Independent Trust Company* from 1996 through late 1999. His background includes experience as a Certified Financial Planner, Registered Investment Advisor, Certified Public Accountant and Controller. Mr. Channer holds an active CFP®, AEP® (Accredited Estate Planner), and a CPA license in Colorado. He received his BS from Metropolitan State College of Denver. Mr. Channer serves as Chair of the Company's Board Audit Committee.

COMMITTEES OF THE BOARD OF DIRECTORS

We are managed under the direction of our board of directors. The Company's board has established two committees: Audit and the Nominating, Compensation, Corporate Governance.

CONFLICTS OF INTEREST - GENERAL

Our directors and officers are, or may become, in their individual capacities, officers, directors, controlling shareholder and/or partners of other entities engaged in a variety of businesses. Thus, there exist potential conflicts of interest including, among other things, time, efforts and corporation opportunity, involved in participation with such other business entities. While each officer and director of our business is engaged in business activities outside of our business, they devote to our business such time as they believe to be necessary.

CONFLICTS OF INTEREST - CORPORATE OPPORTUNITIES

Presently no requirement is contained in our Articles of Incorporation, Bylaws, or minutes which require officers and directors of our business to disclose to us business opportunities which come to their attention. Our officers and directors do, however, have a fiduciary duty of loyalty to us to disclose to us any business opportunities which come to their attention, in their capacity as an officer and/or director or otherwise. Excluded from this duty would be opportunities which the person learns about through his involvement as an officer and director of another company. We have no intention of merging with or acquiring an affiliate, associate person or business opportunity from any affiliate or any client of any such person.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act requires our Officers and Directors, and persons who own more than 10% of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC. Officers, directors and greater than 10% shareholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of copies of such reports received, and representations from certain reporting persons, we believe that, during the fiscal year ended December 31, 2010, all of the Section 16(a) filing requirements applicable to our officers, directors and greater than 10% beneficial owners were filed in compliance with all applicable requirements.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth certain information concerning compensation paid by the Company to the President and the Company's two most highly compensated executive officers for the fiscal year ended December 31, 2010, 2009 and 2008 (the "Named Executive Officers"):

SUMMARY EXECUTIVE COMPENSATION TABLE

| Name & Position | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$)(10) | Option Awards (\$) | Non-equity incentive plan comp (\$) | Non-qualified deferred comp earnings (\$) | All other comp (\$) | Total (\$) |
|---|---------|----------------|---------------|-----------------------------|--------------------------|--|--|---------------------------|------------|
| John McKowen, CEO, Chairman | 2010(1) | 223,158 | 0 | 0 | 0 | 0 | 0 | 14,738 | 237,896 |
| | 2009(2) | 241,484 | 27,500 | 0 | 0 | 0 | 0 | 7,476 | 276,460 |
| | 2008(3) | 270,833 | 0 | 0 | 0 | 0 | 0 | 45,779 | 316,612 |
| Wayne Harding, CFO & Secretary | 2010(4) | 97,750 | 1,833 | 0 | 0 | 0 | 0 | 14,880 | 114,463 |
| | 2009(5) | 95,423 | 6,250 | 0 | 0 | 0 | 0 | 23,069 | 124,742 |
| | 2008(6) | 0 | 0 | 0 | 140,330 | 0 | 0 | 0 | 140,330 |
| Gary Barber, COO & Pres | 2010(7) | 0 | 0 | 0 | 0 | 0 | 0 | 32,000 | 32,000 |
| John Stroh, President | 2010(8) | 45,260 | 1,125 | 0 | 0 | 0 | 0 | 58,437 | 104,822 |
| | 2009(9) | 0 | 0 | 0 | 0 | 0 | 0 | 63,192 | 63,192 |

- (1) Other Compensation is the payment of the health insurance benefit by the Company (\$5,757) and auto allowance (\$8,981).
- (2) Other Compensation is the payment of the health insurance benefit by the Company (\$7,476).
- (3) Other Compensation is the payment of the health insurance benefit by the Company (\$11,765); auto allowance (\$13,014), and office reimbursement (\$21,000).
- (4) Other Compensation is the payment of the health insurance benefit by the Company.
- (5) Salary and bonus is the amount for the entire year ending December 31, 2009. Mr. Harding did not become an officer of the Company until September 2009 and did not become a director of the Company until November 2009. Other Compensation is the payment of dental and health insurance benefit (\$23,069).
- (6) Mr. Harding's options were granted on July 28, 2008. A black-scholes computation indicated \$140,330 value upon grant. At the time of grant, Mr. Harding was not an officer or director of the Company. Mr. Harding became the CFO and Secretary of the Company in September, 2009.
- (7) Mr. Barber was paid as a contract employee during 2010.
- (8) Mr. Stroh's Other Compensation is the payment of contract pay of \$54,666 and health insurance benefit payment by the Company of \$3,771.
- (9) Mr. Stroh became the President of TRWC, Inc. in August, 2009. He is paid via a contract labor agreement. In 2009, Mr. Stroh was paid \$61,840 in contract labor and \$1,352 in health and dental insurance premiums.
- (10) Stock award compensation is based on Restricted Stock Units granted and vested during the year. No RSUs vested in 2010.

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Employment Agreements

The Company's Board has a separate compensation committee; which determines the compensation for the Company's officers and directors. Members of the committee are Gary Barber (Chair), Dennis Channer and Brad Walker.

All in-place employment agreements provides for accelerated option vesting. Change in control is defined as the sale or other disposition to a person, entity or group of 50% or more of the consolidated assets of the Company taken as a whole.

On September 9, 2004, (and amended on June 15, 2005 and December 16, 2010) the Company entered into an employment agreement with John McKowen, as President and CEO. The initial term of the contract was two years, which renews automatically for successive one year terms unless and until either party delivers notice of termination within 30 days of the expiration of the then current term.

On November 1, 2008, (and amended on December 16, 2010) the Company entered into an employment agreement with Wayne Harding. The initial term of the contract was one year, which renews automatically for successive one year terms unless and until either party delivers notice of termination within 30 days of the expiration of the then current term.

On December 16, 2010 the Company entered into an employment agreement with Gary Barber. The initial term of the contract is one year, which renews automatically for successive one year terms unless and until either party delivers notice of termination within 30 days of the expiration of the then current term.

During the year ended December 31 2010, no changes in Mr. McKowen's pay were made. Effective January 1, 2011, Mr. McKowen's pay is reduced to \$180,000 per year, Mr. Barber's pay is \$120,000 per year and Mr. Harding's pay is \$120,000 per year.

Besides compensation levels, Mr. McKowen's, Mr. Barber's and Mr. Harding's employment agreement terms are similar. Each has a one year term, automatically renewing unless notification of termination is delivered within 30 days of the term expiration, and the Board determines annual incentive compensation at the Board's sole discretion. If there is a change of control, each is entitled to an accelerated option/RSU vesting.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

The following table sets forth certain information concerning outstanding option awards held by the President and our most highly compensated executive officers for the fiscal year ended December 31, 2010 to the "Named Executive Officers":

| | No. of securities underlying exercised options (#) | No. of securities underlying unexercised options (#) | Equity incentive plan awards: No. of securities underlying unexercised options (#) | Option exercise price (\$) | Option expiration date | No. of shares or units of stock that have not vested (#) | Market Value of shares or units of stock that have not vested (\$) | Equity incentive plan awards: no. of unearned shares, units or other rights that have not vested (#) | Equity incentive plan awards; Market or payout value of unearned shares, units or other rights that have not vested (\$) |
|------------------------|--|--|--|----------------------------|------------------------|--|--|--|--|
| John McKowen, CEO | 0 | 0 | 0 | N/A | N/A | 0 | 0 | 0 | 0 |
| Gary Barber, President | 0 | 0 | 0 | N/A | N/A | 0 | 0 | 0 | 0 |
| Wayne Harding, CFO | 0 | 0 | 0 | N/A | N/A | 0 | 0 | 0 | 0 |

During the year ended December 31 2010, the following stock option equity awards were converted to Restrictive Stock Units:

John McKowen: 1,480,948 shares

Wayne Harding: 200,000 shares

The following table sets forth certain information concerning outstanding option awards held by the President and our most highly compensated executive officers for the fiscal year ended December 31, 2010 to the "Named Executive Officers":

| Name | Grant Date | Estimated future payouts under non-equity incentive plan awards | | | Estimated future payments under equity incentive plan awards | | | All other stock awards: No. of shares of stock or underlying units (#) | All other awards: No. of securities or underlying options (#) | Option Number of securities awards (\$/Sh) | Grant date fair value of stock and option awards (\$) |
|---------------|------------|---|-------------|--------------|--|------------|-------------|--|---|--|---|
| | | Threshold (\$) | Target (\$) | Maximum (\$) | Threshold (#) | Target (#) | Maximum (#) | | | | |
| John McKowen | Oct 2010 | N/A | N/A | N/A | 1,480,947 | 2,480,947 | 2,480,947 | 0 | 0 | N/A | 4,561,000 |
| Gary Barber | Oct 2010 | N/A | N/A | N/A | 0 | 1,000,000 | 1,000,000 | 0 | 0 | N/A | 1,701,000 |
| Wayne Harding | Oct 2010 | N/A | N/A | N/A | 200,000 | 700,000 | 700,000 | 0 | 0 | N/A | 1,292,000 |

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DIRECTOR COMPENSATION

The following table sets forth certain information concerning compensation paid to our directors for services as directors, but not including compensation for services as officers reported in the "Summary Executives Compensation Table" during the year ended December 31, 2010:

| Name | Fees earned or paid in cash (\$) | Stock awards (\$) | Option Awards (\$) | Non-equity incentive plan compen- sation (\$) | Non- Qualified Deferred compen- sation earnings (\$) | All other compen-sation (\$) | Total (\$) |
|-------------------|---|-------------------------|-----------------------|--|--|------------------------------------|---------------|
| John McKowen (1) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gary Barber (2) | 500 | 9,333 | 0 | 0 | 0 | 0 | 9,833 |
| John Stroh II (3) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Bradley Walker | 500 | 9,333 | 0 | 0 | 0 | 0 | 9,833 |
| Dennis Channer | 500 | 9,333 | 0 | 0 | 0 | 0 | 9,833 |
| Wayne Harding (4) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Jolee Henry (7) | 8,204 | 0 | 0 | 0 | 0 | 0 | 8,204 |
| Fred Jones(5) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

- (1) [During the year ended December 31, 2010, Mr. McKowen received compensation as set forth in the Executive Compensation Table.](#)
- (2) [During the year ended December 31, 2010, Mr. Barber received compensation as set forth in the Executive Compensation Table.](#)
- (3) [During the year ended December 31, 2010, Mr. Stroh received compensation as set forth in the Executive Compensation Table.](#)
- (4) [During the year ended December 31, 2010, Mr. Harding received compensation as set forth in the Executive Compensation Table.](#) Mr. Harding did not stand for board reelection.
- (5) During the year ended December 31, 2009, Mr. Jones received contract labor compensation for services rendered outside of his board function of \$34,800. Mr. Jones resigned in 2010.
- (6) Stock awards are granted the calendar quarter following the calendar quarter of service.
- (7) Jolee Henry did not stand for board re-election at the October 2010 annual meeting. Therefore, effective October 2010, Ms. Henry is no longer a Company's board member.

Each outside director receives \$1,000 and 5,000 shares of the Company's stock per calendar quarter and \$500 per meeting in person along with reimbursement of reasonable travel costs. These payments include services for the Board Committees.

LONG TERM COMPENSATION PLANS AND STOCK OPTIONS

The board of directors has adopted a Management Incentive Plan that contemplates the issuance of options as well as cash bonuses to certain executive officers and key employees of the Company. The incentive plan is administered by the Company's board of directors under guidance from the Company's Compensation Committee. It is contemplated that cash bonuses, RSUs and options will be granted following the successful closing equity or debt funding and successful acquisitions by the Company. The amount of the grants will be based on the value of the transaction and participants are designated by the Company's board of directors upon recommendation by the Chief Executive Officer. There have not been any stock options granted under this incentive plan.

Stock Option Plan

On May 6, 2005, the Company's board of directors adopted the Two Rivers 2005 Stock Option Plan pursuant to which the board may grant options to purchase a maximum of 5,000,000 shares of Two Rivers common stock to key employees, directors and consultants. As of December 31, 2010, options to purchase an aggregate of 1,745,562 shares of common stock were issued and outstanding consisting of options to purchase 1,475,562 shares of common stock at an exercise price of \$1.25 per share and options to purchase an aggregate of 270,000 shares of common stock at an exercise price of \$2.00 per share. The option plan only provides for the grant of nonqualified stock options.

The exercise price of options may not be less than the fair market value on the date of grant as determined by the board of directors and will expire no later than the tenth anniversary of the date of grant. The board may establish vesting or other requirements which must be met prior to the exercise of the stock options. In the event of a corporate transaction involving Two Rivers (including, without limitation, any stock dividend, stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination or exchange of shares), the board may adjust outstanding awards to preserve the benefits or potential benefits of the awards.

Audit Committee

In 2010 the Company established a separate Audit Committee. The Chair of the Audit Committee is Dennis Channer. Mr. Gary Barber and Mr. Brad Walker are the other board members serving on the Audit Committee.

Compensation, Governance & Nominating Committee

In 2010 the Company established a separate Compensation, Governance & Nominating Committee. The Chair of this Committee is Gary Barber. Mr. Dennis Channer and Mr. Brad Walker are the other board members serving on this Committee.

Code of Ethics

The Company has adopted a Code of Conduct for the Board and the salaried employees.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information regarding the beneficial ownership of outstanding shares of the Company's common stock as of December 31, 2010 on a fully diluted basis, by (a) each person known by the Company to own beneficially 5% or more of the outstanding shares of common stock, (b) the Company's directors, Chief Executive Officer and executive officers whose total compensation exceeded \$100,000 for the last fiscal year, and (c) all directors and executive officers of the Company as a group.

| Title of Class | Name and Address of Beneficial Owner | Amount and Nature of Beneficial Owner | Percent Class (1) | of |
|--|---|---|----------------------|----|
| Common Shares | John McKowen (2) 2000 S Colorado Blvd Annex Bldg Ste 420 Denver CO 80222 | 2,545,528 | 11.28% | |
| Common Shares | Wayne Harding (3) 2000 S Colorado Blvd Annex Bldg Ste 420 Denver CO 80222 | 107,089 | 0.47% | |
| Common Shares | Gary Barber (4) 2000 S Colorado Blvd. Annex Bldg. Ste 420 Denver CO 80222 | 5,000 | 0.02% | |
| Common Shares | John Stroh II (5) 2000 S Colorado Blvd. Annex Bldg. Ste 420 Denver CO 80222 | 1,001,430 | 4.44% | |
| Common Shares | Dennis Channer (6) 2000 S Colorado Blvd. Annex Bldg. Ste 420 Denver CO 80222 | 5,000 | 0.02% | |
| Common Shares | Brad Walker (7) 2000 S Colorado Blvd. Annex Bldg. Ste 420 Denver CO 80222 | 5,000 | 0.02% | |
| Total for all Directors and Executive Officers as a Group | | 3,669,047 | 16.26% | |

- (1) Applicable percentage ownership is based on 19,782,916 shares of common stock issued and outstanding as of December 31, 2010. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock that are currently exercisable or exercisable within 60 days of December 31, 2010 are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. For the purpose of the Officers and Directors ownership computation, there are 19,782,916 common shares outstanding; 1,725,562 options, 894,044 RSUs and 150,000 warrants, for a total dilution pool of 22,567,522 which is used as the denominator in the Percent of Class calculation.
- (2) Mr. McKowen holds, directly, 1,805,054 shares of the Company's common stock. He holds RSUs exercisable for 2,480,948 shares of the Company's common stock, of which 740,474 are considered for the beneficial ownership calculation.
- (3) Mr. Harding directly holds 7,089 shares of the Company's common stock. He holds RSUs exercisable for 700,000, of which 100,000 shares are considered for the beneficial ownership calculation.
- (4) Mr. Barber directly owns no shares of the Company's common stock. He is granted 5,000 shares of the Company in January 2011 for board service in 2010.
- (5) Mr. Stroh directly holds 896,787 shares of the Company's common stock. He also owns 99,643 shares that are being held in escrow due to the terms of the TRB merger. He is granted 5,000 shares of the Company in January 2011 for board service in 2010.
- (6) Mr. Channer directly owns no shares of the Company's common stock. He is granted 5,000 shares of the Company in January 2011 for board service in 2010.
- (7) Mr. Walker directly owns no shares of the Company's common stock. He is granted 5,000 shares of the Company in January 2011 for board service in 2010.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Intercompany Transactions

Starting in July 2007, Two Rivers began lending money to Northsight to enable Northsight to make short term, mortgage backed loans to borrowers who are purchasing deeply discounted or foreclosed residential real estate in Arizona and Colorado.

In June, 2008, Two Rivers became the direct funding source for the short term, mortgage backed loans with Northsight acting as the mortgage originator. Therefore, Northsight transferred the loans outstanding back to Two Rivers in exchange for the cancellation of the intercompany note. As of December 31, 2010, Two Rivers had \$227,000 in short term bridge loans outstanding, which is net of an allowance for uncollectable loans of \$144,000.

Officer and Directors Transactions

During the year ended December 31, 2010, the Company paid Mr. McKowen, the CEO and Chairman of the Company, total compensation of \$237,896 which consists of salary of \$223,158 and health and dental insurance benefit of \$14,738. Mr. McKowen had 1,480,948 options that were transferred to RSUs and a grant of an additional 1,000,000 RSUs. The entire fair value of the RSUs is \$4,562,000 and is expensed over vesting period and recognized as income to recipient in the year of vesting.

During the year ended December 31, 2010, the Company paid Mr. Harding, the CFO of the Company, a total compensation of \$114,463, which consists of salary of \$97,750, a bonus of \$1,833, and health and dental insurance benefit of \$14,880. Mr. Harding had 200,000 options that were transferred to RSUs and a grant of an additional 500,000 RSUs. The entire fair value of the RSUs is \$1,292,000 and is expensed over vesting period and recognized as income to recipient in the year of vesting.

During the year ended December 31, 2010, the Company paid Mr. Barber, the COO of the Company, a total compensation of \$32,000, which consists solely of contract payments. Mr. Barber was also granted 1,000,000 RSUs. The entire fair value of the RSUs is \$1,701,000 and is expensed over vesting period and recognized as income to recipient in the year of vesting.

Mr. Stroh II is also a managing member of TRB.

On August 17, 2009, Two Rivers through its wholly owned subsidiary TRWC and TRB, formed HCIC, a joint venture. Under the terms of the Joint Venture agreements, the Company, at the Company's sole discretion, can contribute up to \$2,850,000 in cash. TRB contributed purchased options in the Mutual Ditch with a fair value of \$2,850,000. Under certain conditions, TRB members can exchange their membership units in TRB for common shares in Two Rivers. In September 2010, the Company exchanged 7,500,000 of its common shares for 100% of TRB's interest in HCIC. After this exchange, the Company owns 100% of HCIC.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Schumacher and Associates, Inc. (Schumacher) has been engaged as the Company's principal audit accounting firm from November 5, 2008 to date. The Company's Board of Directors has considered whether the provisions of audit services are compatible with maintaining Schumacher's independence. Prior to November 5, 2008, Jaspers + Hall, P.C. (Jaspers) was engaged as the Company's principal accounting firm for the year ended December 31, 2007 and the period of January 1, 2008 through October 28, 2008.

The following table represents aggregate fees billed to the Company during the year ended December 31, 2010 and 2009 by Schumacher.

| | Year Ended December 31, | |
|--------------------|-------------------------|------------------|
| | 2010 | 2009 |
| Audit Fees | \$ 63,885 | \$ 69,900 |
| Audit-related Fees | 0 | 0 |
| Tax Fees | 0 | 0 |
| All Other Fees | 0 | 0 |
| Total Fees | <u>\$ 63,885</u> | <u>\$ 69,900</u> |

The Company uses a different CPA/Attorney firm for the preparation of income tax reporting.

PART IV**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

The following is a complete list of exhibits filed as part of this Form 10K. Exhibit number corresponds to the numbers in the Exhibit table of Item 601 of Regulation S-K.

| Number | Description | |
|--------|--|----------------|
| 21.1 | List of Subsidiaries of Two Rivers Water Company | Filed Herewith |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act | Filed Herewith |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act | Filed Herewith |
| 32.1 | Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act | Filed Herewith |
| 32.2 | Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act | Filed Herewith |
| 99.1 | Board of Director Code of Conduct | Filed Herewith |
| 99.2 | Audit Committee Charter | Filed Herewith |
| 99.3 | Governance, Compensation and Nominating Committee Charter | Filed Herewith |

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 29, 2011

Two Rivers Water Company

By: /s/John McKowen
John McKowen,
Chief Executive Officer and Chairman of
the Board

By: /s/ Wayne Harding
Wayne Harding,
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Dated: March 29, 2011

Two Rivers Water Company

/s/John McKowen
John McKowen, President, Chief Executive Officer and
Chairman of the Board

/s/Wayne Harding
Wayne Harding, Chief Financial Officer and Director

/s/ Gary Barber
Gary Barber, President, Chief Operations
Officer, Director

/s/ John Stroh II
John Stroh II, Director

/s/ Brad Walker
Brad Walker, Director

/s/Dennis Channer
Dennis Channer, Director

Two Rivers Water Company 2010 Annual Report - 10K

TWO RIVERS WATER COMPANY AND SUBSIDIARIES

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Two Rivers Water Company and Consolidated Subsidiaries

We have audited the accompanying consolidated balance sheets of Two Rivers Water Company and Consolidated Subsidiaries, as of December 31, 2010 and 2009, and the related consolidated Statements of Operations, Stockholders' Equity, and Cash Flows for the years ended December 31, 2010 and 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Two Rivers Water Company and Consolidated Subsidiaries as of December 31, 2010 and 2009, and the results of its consolidated operations and cash flows for the years ended December 31, 2010 and 2009, in conformity with accounting principles generally accepted in the United States of America.

SCHUMACHER & ASSOCIATES, INC.

Denver, Colorado
March 29, 2011

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TWO RIVERS WATER COMPANY AND SUBSIDIARIES
Consolidated Balance Sheets (In Thousands)

| | December 31, 2010 | December 31, 2009 |
|---|----------------------|----------------------|
| ASSETS: | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 645 | \$ 616 |
| Note receivable - Aegis/Grizzle (Notes 2, 3) | - | 295 |
| Accrued interest receivable | 3 | 4 |
| Advances and accounts receivable | 38 | 1 |
| Income taxes receivable (Notes 2, 8) | - | 489 |
| Deposits | - | 202 |
| Prepaid expenses | 13 | 16 |
| Assets held for sale | - | 134 |
| Total Current Assets | 699 | 1,757 |
| Property, equipment and software, net (Note 2) | 156 | 94 |
| Other Assets | | |
| Investment in Boston Property all units sold as of Dec 31, 2010, net of impairment of \$889 on December 31, 2009 (Note 2, 4) | - | 2,073 |
| Land (Notes 2, 4) | 1,279 | 991 |
| Water rights and infrastructure (Notes 2, 4) | 24,216 | 2,267 |
| Options on real estate and water shares (Notes 2, 4) | 100 | 2,586 |
| Dam Construction (Note 4) | 489 | 163 |
| Assets held for sale (Notes 2, 4) | 259 | 1,274 |
| Total Other Assets | 26,343 | 9,354 |
| TOTAL ASSETS | \$ 27,198 | \$ 11,205 |
| LIABILITIES & STOCKHOLDERS' EQUITY: | | |
| Current Liabilities: | | |
| Accounts payable | \$ 463 | \$ 281 |
| Short term borrowings (Note 5) | - | 950 |
| Deposits held | - | 30 |
| Accrued liabilities | 114 | 5 |
| Total Current Liabilities | 577 | 1,266 |
| Notes Payable - Long Term (Note 5) | 9,128 | 2,175 |
| Total Liabilities | 9,705 | 3,441 |
| Commitments and Contingencies (Notes 1, 2, 3, 4, 5, 7, 8, 9, 10, 11, 12, 13) | | |
| Stockholders' Equity: | | |
| Common stock, \$0.001 par value, 100,000,000 shares authorized, 19,782,916 and 9,214,583 shares issued and outstanding at Dec 30, 2010 and Dec 31, 2009, respectively | 20 | 9 |
| Additional paid-in capital | 28,949 | 9,200 |
| Accumulated (deficit) | (13,587) | (4,120) |
| Total Two Rivers Water Company Shareholders' Equity | 15,382 | 5,089 |
| Noncontrolling interest in subsidiary (Note 2) | 2,111 | 2,675 |
| Total Stockholders' Equity | 17,493 | 7,764 |
| TOTAL LIABILITIES & STOCKHOLDERS' EQUITY | \$ 27,198 | \$ 11,205 |

The accompanying notes to consolidated financial statements are an integral part of these statements.

TWO RIVERS WATER COMPANY AND SUBSIDIARIES
Consolidated Statements of Operations (In Thousands)

| | Year Ended | |
|--|-------------------|-------------------|
| | 31-Dec-10 | 31-Dec-09 |
| Revenue | | |
| Farm Revenue | \$ 153 | \$ - |
| Water Revenue | 15 | - |
| Member assessments | 25 | - |
| Other Income | 3 | 11 |
| Total Revenue | 196 | 11 |
| Direct cost of revenue | 285 | - |
| Gross Profit | (89) | 11 |
| Operating Expenses: | | |
| General and administrative | 2,653 | 2,055 |
| Stock based compensation | 4,841 | 118 |
| Depreciation and amortization | 24 | 7 |
| Total operating expenses | 7,518 | 2,180 |
| (Loss) from operations | (7,607) | (2,169) |
| Other income (expense) | | |
| Gain (loss) on sale of investments | 40 | 33 |
| Interest income | 1 | 42 |
| Interest (expense) | (745) | (54) |
| Warrant (expense) | (218) | - |
| Other income (expense) | 13 | - |
| Total other income (expense) | (909) | 21 |
| Net (Loss) from continuing operations before taxes | (8,516) | (2,148) |
| Income tax benefit (Note 8) | - | 314 |
| Net (Loss) from continuing operations | (8,516) | (1,834) |
| Discontinued Operations (Note 9) | | |
| Loss from operations of discontinued real estate and mortgage business | (946) | (1,427) |
| Income tax benefit | - | 161 |
| (Loss) on discontinued operations | (946) | (1,266) |
| Net (Loss) | (9,462) | (3,100) |
| Net loss (income) attributable to the noncontrolling interest (Note 2) | (4) | 175 |
| Net (Loss) attributable to Two Rivers Water Company | \$ (9,466) | \$ (2,925) |
| (Loss) Per Share - Basic: | | |
| (Loss) from continuing operations | (0.60) | (0.20) |
| (Loss) from discontinued operations | (0.07) | (0.13) |
| Total | (0.67) | (0.33) |
| Weighted Average Shares Outstanding: | | |
| Basic | 14,148 | 8,959 |

The accompanying notes to consolidated financial statements are an integral part of these statements.

TWO RIVERS WATER COMPANY AND SUBSIDIARIES
Consolidated Statements of Cash Flows (In Thousands)

| | For the year ended December 31, | |
|---|---------------------------------|----------------|
| | 2010 | 2009 |
| Cash Flows from Operating Activities: | | |
| Net (Loss) | \$ (9,462) | \$ (3,100) |
| Adjustments to reconcile net income or (loss) to net cash used in operating activities: | | |
| Depreciation (including discontinued operations) | 58 | 67 |
| Increase in bad debt allowance on note receivables | 51 | 23 |
| Legendary Investment sale and write off | 14 | |
| Increase in reserves and impairments (discontinued operations) | 448 | 784 |
| Recapture of impairments from REOs sold | - | (708) |
| Loss from REOs sold (discontinued operations) | 83 | 250 |
| (Gain) Loss on sale of investments and assets held | 45 | (33) |
| Beneficial Conversion | 325 | - |
| Loss on sale of Boston property (discontinued operations) | 110 | - |
| Stock for services | 298 | - |
| Stock based compensation and warrant extension | 5,059 | 118 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in deposits, prepaid expenses and other assets | - | (197) |
| Decrease in mortgage loans receivable (See Supplemental Information below) | - | 1,246 |
| Decrease (increase) in income tax receivable | 489 | (489) |
| Increase (decrease) in accrued interest and expenses | (36) | 83 |
| Increase in accounts payable | 182 | 122 |
| Increase (Decrease) in accrued liabilities and other | 131 | (88) |
| Net Cash (Used in) Operating Activities | (2,205) | (1,922) |
| Cash Flows from Investing Activities: | | |
| Investments (increased)/decreased | | |
| Boston real estate and other residential real estate | (381) | (289) |
| Proceeds from Boston real estate | 1,925 | - |
| Marketable securities purchased | - | (124,357) |
| Proceeds from marketable securities sold | - | 124,533 |
| Proceeds from REO properties sold | 863 | 2,710 |
| Proceeds from asset held for sale | 176 | - |
| Decrease in note receivable | - | 155 |
| Purchase of property, equipment and software | (131) | (17) |
| Proceeds from fixed assets sold | 19 | - |
| Purchase of real estate option | (100) | - |
| Purchase of land, water shares, infrastructure | (8,012) | (2,711) |
| Dam construction | (326) | (163) |
| Other assets | 3 | 3 |
| Net Cash Provided by/(Used in) Investing Activities | (5,964) | (136) |
| Cash Flows from Financing Activities: | | |
| Increase in long term borrowings | 6,951 | 2,175 |
| Paydown of real estate loans | (950) | (441) |
| Private placement - net of offering costs | 2,202 | 150 |
| Option exercise | - | 10 |
| Retirement of Common Stock | (5) | (94) |
| Net Cash Provided by Financing Activities | 8,198 | 1,800 |
| Net (Decrease) in Cash & Cash Equivalents | 29 | (258) |
| Beginning Cash & Cash Equivalents | 616 | 874 |
| Ending Cash & Cash Equivalents | \$ 645 | \$ 616 |

Continued on next page

Continued from previous page

Supplemental Disclosure of Cash Flow Information

| | | |
|--|-----------|----------|
| Non cash settlement on short term mortgages and transfers | \$ - | \$ 3,864 |
| Non cash retirement/disposal of fixed assets | \$ - | \$ (77) |
| Non-controlling interest | \$ 4 | \$ 2,850 |
| Cash paid for Interest | \$ 526 | \$ 107 |
| Cash received from Income tax refunds | \$ 501 | \$ 75 |
| Common stock issued for land and water share purchase | \$ 500 | \$ - |
| Conversion of note receivable for loan on land | \$ 295 | \$ - |
| Increase in note receivable from sale of Legendary Investment | \$ 9 | \$ - |
| Increase of Additional Paid In Capital due to stock options issued | \$ - | \$ 10 |
| Stock issued for non-controlling interest in HCIC | \$ 11,379 | \$ - |
| Recovery of BPZ shares | \$ - | \$ 143 |
| Related party note receivable exchanged for property | \$ - | \$ 160 |

The accompanying notes to consolidated financial statements are an integral part of these statements

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TWO RIVERS WATER COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2010 and 2009 (In thousands)

| | Voting Common Shares | Stock Amount | Additional Paid In Capital | Accumulated Other Comprehen-sive Income | Non-Controlling Interest | Accumulated (Deficit) | Stock-holders' Equity |
|--|-------------------------|-----------------|----------------------------------|--|-----------------------------|--------------------------|--------------------------|
| Balances, December 31, 2008 | 9,019 | \$ 9 | 8,873 \$ | - \$ | - \$ | (1,195) \$ | 7,687 |
| Net (Loss) | - | - | - | - | (175) | (2,925) | (3,100) |
| Stock-based compensation expense | - | - | 118 | - | - | - | 118 |
| Retirement of Stock - open market purchases | (155) | - | (94) | - | - | - | (94) |
| Stock purchased through private placement | 150 | - | 150 | - | - | - | 150 |
| Options exercised | 200 | - | 10 | - | - | - | 10 |
| Recovered BPZ stock | - | - | 143 | - | - | - | 143 |
| Non-controlling interest in a subsidiary | - | - | - | - | 2,850 | - | 2,850 |
| Balances, December 31, 2009 | 9,214 | 9 | 9,200 | - | 2,675 | (4,120) | 7,764 |
| Net Income (Loss) | - | - | - | - | 4 | (9,467) | (9,463) |
| Stock-based compensation expense | - | - | 4,841 | - | - | - | 4,841 |
| Warrant extension expense | - | - | 218 | - | - | - | 218 |
| Stock issued in exchange for land and water shares and contract labor | 723 | 1 | 798 | - | - | - | 799 |
| Stock purchased through private placement | 2,400 | 3 | 2,398 | - | - | - | 2,401 |
| Direct cost of private placement | - | - | (196) | - | - | - | (196) |
| Stock issued in merger with TRB | 7,500 | 7 | 11,371 | - | (568) | - | 10,810 |
| Beneficial conversion | - | - | 325 | - | - | - | 325 |
| Retirement of Stock - open market purchases | (55) | - | (6) | - | - | - | (6) |
| Balances, December 31, 2010 | 19,782 | \$ 20 | 28,949 \$ | - \$ | 2,111 \$ | (13,587) \$ | 17,493 |

The accompanying notes to consolidated financial statements are an integral part of these statements.

TWO RIVERS WATER COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2010 and 2009

NOTE 1 - ORGANIZATION

The following is a summary of some of the information contained in this document. Unless the context requires otherwise, references in this document to “Two Rivers Water Company,” “Two Rivers,” or the “Company” is to Two Rivers Water Company and its subsidiaries.

Two Rivers was incorporated in December 2002 in the state of Colorado. The Company was formerly known as Navidec Financial Services, Inc. until it changed its name on November 19, 2009 to Two Rivers Water Company. The Company’s operations are centered in Colorado.

Two Rivers currently operates farming operations along with a water acquisition, development and distribution business in southern Colorado.

On August 17, 2009, HCIC Holdings, LLC (“HCIC”), a Colorado limited liability company, was formed to acquire and operate a water business consisting of ownership of water rights, storage of water and distribution of water (the “Water Business”). Upon formation, Two Rivers owned 50% of HCIC and a non-related group owned the other 50%. On September 14, 2010, Two Rivers purchased the 50% interest of the non-related group; therefore, Two Rivers now owns 100% of HCIC, through its 100% owned subsidiary, TRWC, Inc.

On January 5, 2010 the Board of Directors of the Company (the “Board”) authorized to offer the Company’s restricted common stock at \$1.00/share. The maximum offering was 5,000,000 shares, with no minimum. This offering was closed on August 31, 2010 and sold 2,900,000 shares, raised \$2,400,000 and issued 500,000 shares as a partial payment for land and water shares.

On March 17, 2010, Two Rivers formed Two Rivers Farms, LLC (“Farms”) to acquire and operate agriculture land either as a sole operator or in joint venture with other individuals and companies (the “Farming Business”). Two Rivers is Farms’ sole member and owner. Two Rivers intends to hold whatever ownership interest it has in the Farming Business through Farms. Further, Two Rivers intends to expand the Farming Business through one or more entities holding farming and water assets with Farms being the operator.

On January 21, 2011, the Company formed Two Rivers Farms F-1, LLC to dedicate 500 acres of farmland and associated water rights to grow feed corn beginning with the 2011 growing season. In February, 2011, the Company raised \$2,000,000 through a convertible debt offering in order to fund the transfer of farming land, Mutual Ditch Company water shares, irrigation, land preparation and farming equipment for the 500 acres.

On March 17, 2010, the Company formed Two Rivers Energy, LLC (“Energy”), a Colorado limited liability company, to potentially produce alternative energy on land owned by the Company, or the Company’s subsidiaries. Two Rivers is Energy’s sole member and owner. Two Rivers intends to hold whatever ownership interest it has in energy related business within Two Rivers Energy, LLC.

On June 30, 2010, the Company sold its 100% interest in Legendary Investment Group, LLC (“Legendary”) to its acting broker, a previous employee of Legendary, for a sales price of \$9,000 plus the buyer assuming the office lease.

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On July 13, 2010, the Company formed Two Rivers Water, LLC, ("Water") a Colorado limited liability company, to secure additional water rights, rehabilitate water storage structures and to develop one or more special water districts.

Two Rivers has purchased the available outstanding shares of Huerfano-Cucharas Irrigation Company; a Colorado Mutual Ditch Company (the "Mutual Ditch Company") located in Huerfano and Pueblo counties in the State of Colorado and additional land, which would assist in perfecting water rights and provide additional water resources. As of December 31, 2010, HCIC had a 91% ownership in the Mutual Ditch Company.

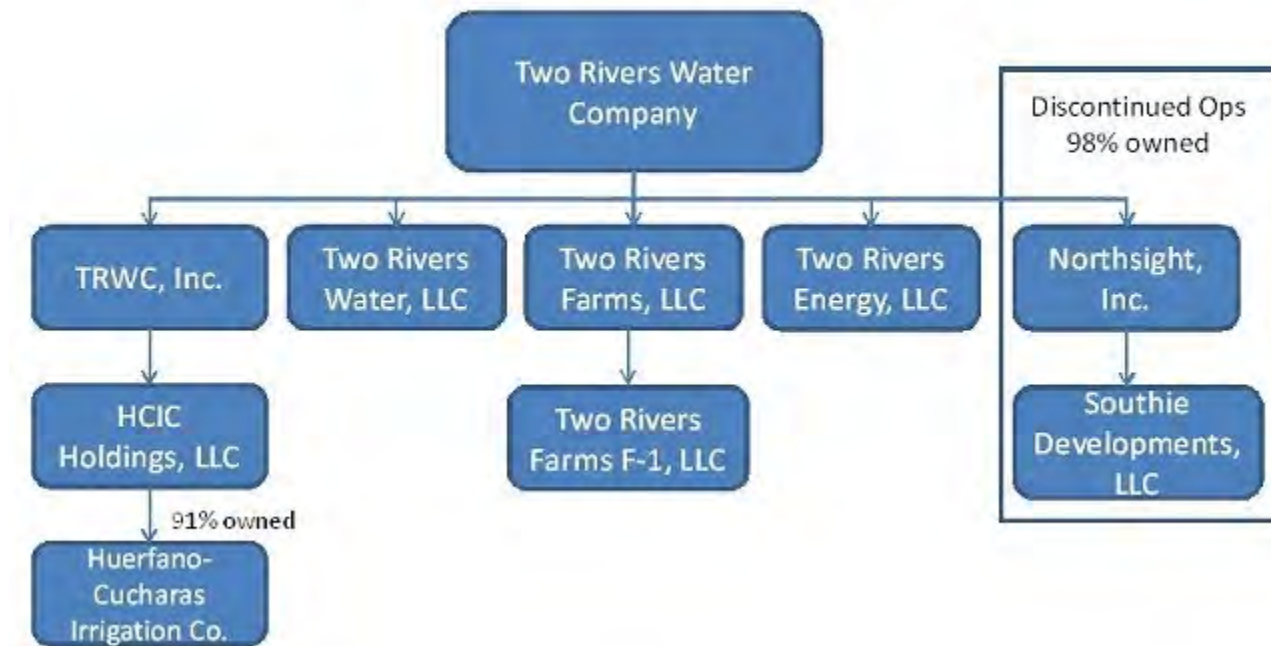
The Mutual Ditch Company owns a large privately held, on-stream reservoir of 41,200 acre feet capacity with associated direct flow and storage rights and a mutual ditch water distribution system that holds easement rights into the Arkansas River. The Mutual Ditch Company also owns additional, smaller water storage facilities.

The Company, through its 100% owned subsidiary Farms operates farms in Pueblo County, Colorado primarily growing U.S. No. 2 yellow corn which is used for animal feed. The land being farmed is owned by a 100% subsidiary, Two Rivers Farms F-1, LLC ("F-1"). F-1 has entered into a farming lease ("Farm Lease") with Farms. The Farm Lease shall be for a three year growing season, commencing in 2011 and ending in 2013. The Farm Lease calls for Farms to pay F-1 an annual lease payment of \$200 per acre plus an additional 33 1/3% of the gross profits from each annual grain crop. Gross profits are defined as gross revenue less normal operating expenses, but also include an adjustment for depreciation in favor of Farms on all machinery and equipment including irrigation equipment owned by F-1. The annual lease payment is due on February 1st of each year and begins on February 1, 2012.

As the Company expands its Farming Business, water rights are also acquired. These water rights are first deployed for the Farming Business. Excess water rights may be acquired and will be used as the market demands. As part of acquiring water rights, the Company is in the process of purchasing additional water rights and additional land which would assist in perfecting water rights and provide additional water resources.

SUBSIDIARIES

Two Rivers Water Company - Organization



Two Rivers is the parent company and owns 100% of TRWC, Inc., Two Rivers Farms LLC, Two Rivers Energy LLC and Two Rivers Water LLC. TRWC, Inc. owns 100% of HCIC Holdings, LLC (“HCIC”). HCIC owns 91% of the Mutual Ditch Company as of December 31, 2010. Two Rivers owns 98% of Northsight, Inc. Northsight owns 100% of Southie Developments and Legendary Investment Group.

TRWC, INC. (formerly Two Rivers Water Company)

On July 28, 2009, the Company formed Two Rivers Water Company, a Colorado corporation. On November 19, 2009, with the shareholder approval, the Company changed its parent name from Navidec Financial Services, Inc. to Two Rivers Water Company. Simultaneously the Company changed the original Two Rivers Water Company’s name to TRWC, Inc. (“TRWC”).

HCIC HOLDINGS, LLC

Two Rivers currently operates a water acquisition, development and distribution business in Huerfano County, Colorado through its subsidiary HCIC. At December 31, 2010 Two Rivers owned 100% of HCIC and at December 31, 2009 owned 50% of HCIC. At December 31, 2010 and 2009 HCIC had a 91% and 18% ownership, respectively, in the Mutual Ditch Company.

On August 17, 2009, Two Rivers, through its wholly owned subsidiary TRWC, and Two Rivers Basin, a Colorado limited liability company (“TRB”), formed HCIC, a joint venture.

Due to the Company being the sole contributor of operational cash, without which HCIC would be unable to operate, the Company treated its investment in HCIC as a Variable Interest Entity (“VIE”) at December 31, 2009 and under US GAAP consolidated HCIC.

In coming to the conclusion to consolidate HCIC, the Company researched the authoritative literature as it pertains to the equity method of accounting and joint ventures (ASC 323.10.15). Other considerations to be examined if there is a VIE relationship which pertains to the Company includes representation on the board of directors; participating in policy-making processes, and the interchange of managerial personnel (ASC 323.10.15-6). Further, accounting standards require valuing TRB's contribution in HCIC at fair value. As of December 31, 2009, the Company estimated the value of the TRB options to purchase shares in the Mutual Ditch Company to be \$2,586,000.

On September 14, 2010, TRWC obtained 100% ownership of HCIC. The owners of TRB were issued 7,500,000 shares of the Company's common stock in exchange for 100% of their ownership in HCIC. This transaction was booked at fair value of \$10,810,000 and substantiated by an independent third party appraisal as of March 2, 2010 and updated as of September 30, 2010.

At March 31, 2010, HCIC owned 71% ownership in the Mutual Ditch Company. Since the Company consolidated HCIC, the Mutual Ditch Company was also consolidated in the Company's financials. After a majority share of the Mutual Ditch Company was acquired, the Company ordered an appraisal of the Ditch Company.

On October 29, 2010, the Company received a formal appraisal of the Mutual Ditch Company as follows:

| | |
|--|--------------|
| As of March 2, 2010 (the date HCIC acquired majority interest in the Mutual Ditch Company) | \$24,196,000 |
| As of September 30, 2010 | \$26,217,000 |

The appraisal was performed by a professional engineering firm, an unrelated entity to the Company. The lead appraiser is a senior principal consultant with the engineering firm and is a Professional Engineer and a Certified General Appraiser in Colorado and Arizona. The appraisal covered all of the assets owned by the Mutual Ditch Company using a highest and best use as agriculture. The appraisal approach to value used the sales comparison, cost and income approach.

Upon receiving the appraisal, the Company adjusted its unaudited March 31, 2010, June 30, 2010 and September 30, 2010 balance sheets to reflect the fair value of the Mutual Ditch Company at \$24,196,000. As of December 31, 2010, the Company owned 91% of the Mutual Ditch Company; therefore, 9% of the \$24,196,000 valuation, or \$2,178,000, is recognized in equity as the non-controlling interest in a subsidiary, less previous loss and negative member equity of \$71,000 and its share of income of \$4,000, for a total non-controlling interest in subsidiary of \$2,111,000.

HUERFANO-CUCHARAS IRRIGATION COMPANY

Huerfano-Cucharas Irrigation Company ("Mutual Ditch Company"); a Colorado Mutual Ditch Company is located in Huerfano and Pueblo counties in the State of Colorado. The Mutual Ditch Company owns water rights, water storage and distribution systems in Huerfano and Pueblo counties. As of December 31, 2010, HCIC owned 91% Mutual Ditch Company.

TWO RIVERS FARMS, LLC

The Company formed Two Rivers Farms, LLC (“Farms”) to reintroduce agriculture activity in Huerfano and Pueblo counties in Colorado. With the planned re-construction of the main reservoir (the Cucharas Reservoir) owned by the Mutual Ditch Company, Farms plans to lease water from the Mutual Ditch Company to produce agriculture crops.

Two Rivers intends to hold whatever ownership interest it has in the Farming Business within Two Rivers Farms, LLC and the wholly owned subsidiaries of Farms.

During the 2010 growing season, approximately 400 acres of land were farmed. The crops were wheat and feed corn. During the 2011 season, Farms plans to cultivate 500 acres of land with feed corn as the crop. The farming will be through a farming lease with Two Rivers Farms F-1, LLC.

TWO RIVERS FARMS F-1, LLC

On January 21, 2011 the Company formed Two Rivers Farms F-1, LLC (“F-1” and previously named Two Rivers Farms T-1, LLC) to hold certain farming assets and as an entity to acquire debt for the Company’s expansion of the Farm Business. F-1 leases the farm land and farming assets back to Farms as the operator of farming activities.

TWO RIVERS WATER, LLC

The Company formed Two Rivers Water, LLC to secure additional water rights, rehabilitate water storage structures and to develop one or more special water districts.

TWO RIVERS ENERGY, LLC

The Company formed Two Rivers Energy, LLC to focus on the production of alternative energy. Except for a bank account balance of \$1,000, as of December 31, 2010, there are no assets being held in Energy. Two Rivers intends to hold whatever ownership interest it has in the Energy Business within Two Rivers Energy, LLC.

LEGENDARY INVESTMENT GROUP, LLC – Discontinued Operations (sold June 30, 2010)

Legendary Investment Group, LLC (“Legendary”) was a limited liability company under the laws of the state of Arizona. It was formed in October 2008 and in December 2008 became a 100% owned subsidiary of Northsight. Northsight acquired Legendary based on Northsight’s ability to fund and expand Legendary’s business.

On June 30, 2010, the Company sold its 100% interest in Legendary Investment Group, LLC (“Legendary”) to its acting broker, a previous employee of Legendary, for a sales price of \$9,000 plus the buyer assuming the office lease.

NORTHSIGHT, INC. (formerly Navidec Mortgage Holdings, Inc.) – Discontinued Operations

In early 2009 Northsight discontinued its short term bridge lending in an effort to reduce its exposure to credit risk. No new loans have been granted since early 2009. As of December 31, 2010 and December 31, 2009, Two Rivers had \$227,000 (net of an allowance for impairment of \$144,000) in long term bridge loans outstanding.

SOUTHIE DEVELOPMENTS, LLC – Discontinued Operations

Two Rivers formed a Colorado limited liability company, Southie Developments, LLC, (“Southie”) on January 31, 2008, as its sole and managing member. Southie was organized to develop residential real estate for resale and to own and manage residential real estate acquired via foreclosure of real estate loans owned by Two Rivers. Once a real estate loan defaults and Two Rivers obtains title to the collateral, Two Rivers transfers the property to Southie for development and management. As part of the management and development of the properties transferred to it, Southie honored any existing residential leases and in some cases did expend monies for rehabilitation of the property with the expectation of selling the property in a short time period, usually less than one year. However, if Southie deemed the property to be a good longer term investment, they might hold the property for periods longer than 12 months. At December 31, 2010, Southie owned properties, as discussed below.

In November 2007, Northsight purchased 56 Thomas Park, South Boston, Massachusetts 02127, a residential property, for \$1,200,000 (“Thomas Park Property”). This property was subsequently transferred to Southie. The Thomas Park Property is a 6,000 square foot single family residence that Northsight converted into three 2,000 square foot individual condominium single family units. As of May 19, 2008, Southie acquired a \$1,200,000 construction loan with Mt. Washington Cooperative Bank for the development of the Thomas Park Property. The loan was due on October 1, 2010 with monthly interest only payments, at prime plus 2% interest rate and an interest rate floor of 7%. As of December 31, 2009, the balance owed on the loan was \$950,000. Previously, this loan was due on November 19, 2009, but was extended to October 1, 2010. As part of the agreement to extend the loan a principal reduction was due and an establishment of a restricted cash account to cover interest payments until June 1, 2010. The restricted cash account was not established until January 12, 2010 and totaled \$46,000. As of June 30, 2010, the Company had invested \$3,231,000 including the bank construction loan of \$950,000. During the three months ended September 30, 2010, the Company completed the sale of all three units for a gross sales price of \$2,250,000 and recognized a loss of \$110,000 over the previous impairment of \$1,297,000. Additionally, the Company has reserved \$25,000 against future warranty repairs, which are for repairs up to 12 months from each unit’s sold date. The Mt. Washington Cooperative Bank debt was paid in full and the restricted cash account closed.

At December 31, 2010, Northsight had two vacant lots in Virginia with a carrying value of \$31,000 (net of \$93,000 impairment).

Effective January 1, 2010, Two Rivers transferred 100% of its ownership of Southie to Northsight.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of Two Rivers and its subsidiaries, TRWC, HCIC, Mutual Ditch Company, Farming, Water, Energy, Legendary, Northsight, and Southie. As of December 31, 2010 and December 31, 2009, Northsight had a negative stockholders' deficit, therefore, the consolidated financial statements do not include a provision for a noncontrolling interest in a subsidiary for Northsight. All significant inter-company balances and transactions have been eliminated in consolidation.

On August 17, 2009, Two Rivers through its wholly owned subsidiary TRWC, and TRB formed HCIC, a joint venture. Each entity owned 50% interest in HCIC. On September 14, 2010, TRWC purchased 100% of TRB's ownership of HCIC through a merger and issuance of 7,500,000 shares of the Company's stock to the members of TRB.

During the period from August 17, 2009 until the merger on September 14, 2010, due to the Company being the sole contributor of operational cash, without which HCIC would be unable to operate, the Company treated its investment in HCIC as a Variable Interest Entity (VIE) and under US GAAP consolidated HCIC.

In coming to the conclusion to consolidate HCIC, the Company researched the authoritative literature as it pertains to the equity method of accounting and joint ventures (Section 323.10.15). Other considerations to be examined if there is a VIE relationship which pertains to the Company includes representation on the board of directors; participating in policy-making processes, and the interchange of managerial personnel (Section 323.10.15-6). Further, accounting standards require valuing TRB's contribution in HCIC at fair value, which, at the time of contribution, was estimated to be \$2,850,000.

On March 17, 2010, Two Rivers formed Two Rivers Farms, LLC and Two Rivers Energy, LLC as its wholly-owned subsidiaries. Therefore, 100% of Farming and Energy operations and balance sheets are consolidated into Two Rivers.

On July 13, 2010, Two Rivers formed Two Rivers Water, LLC as its wholly-owned subsidiary. Therefore, 100% of Water operations and balance sheets are consolidated into Two Rivers.

Non-controlling Interest

Non-controlling interest is recorded for the entities HCIC and the Mutual Ditch Company that are consolidated but are not wholly owned by the Company.

Below is the breakdown of the non-controlling interests' share of gains and (losses).

| (in thousands) | Year ended December 31, 2010 | Year ended December 31, 2009 |
|-------------------------|------------------------------------|------------------------------------|
| HCIC Holdings, LLC | \$ - | (175) |
| Mutual Ditch Company | 4 | - |
| Total | <u>\$ 4</u> | <u>(175)</u> |

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The Company owns 98% of Northsight and its subsidiaries. Since Northsight and its subsidiaries have a negative net worth, non-controlling interest is not shown on the balance sheet. The Company owns 91% of the Mutual Ditch Company. As of December 31, 2010, the non-controlling members' equity in the Mutual Ditch Company was \$2,111,000.

Reclassification

Certain amounts previously reported have been reclassified to conform to current presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ materially from those estimates.

Cash and Cash Equivalents

For purposes of reporting cash flows, Two Rivers considers cash and cash equivalents to include highly liquid investments with original maturities of 90 days or less. Those are readily convertible into cash and not subject to significant risk from fluctuations in interest rates. The recorded amounts for cash equivalents approximate fair value due to the short-term nature of these financial instruments.

Concentration of Credit Risk

Financial instruments that potentially subject Two Rivers to significant concentrations of credit risk include cash equivalents, notes receivable and trade accounts receivable. The Company maintains its cash and investment balances in the form of bank demand deposits, money market accounts, commercial papers and short-term notes with financial institutions that management believes to be of high credit quality. Accounts receivable are typically uncollateralized and are derived from transactions with and from customers primarily located in the United States.

As of December 31, 2010, the Company had \$592,000 in an individual bank demand deposit, of which \$250,000 is covered by FDIC insurance. All other bank accounts were under the FDIC insurance limit of \$250,000.

Management reviews accounts receivable periodically and reduces the carrying amount by a valuation allowance that reflects management's best estimate of amounts that may not be collectible. Allowances, if any, for uncollectible accounts receivable are determined based upon information available and historical experience. As of December 31, 2010, there was an allowance of \$144,000 against a long term mortgage balance of \$371,000. As of December 31, 2009, there was an allowance of \$139,000 against a short term mortgage balance of \$371,000.

No revenues to unaffiliated customers represented 10% or more of the Company's revenue for the year ended December 31, 2010.

Fair Value of Financial Instruments

The Company records fair value of monetary and nonmonetary instruments in accordance with ASC 820 Fair Value Measurements and Disclosures. The ASC establishes a framework for measuring fair value, establishes a fair value hierarchy based on inputs used to measure fair value, and expands disclosure about fair value measurements. Adopting this statement has not had an effect on the Company's financial condition, cash flows, or results of operations.

In accordance with ASC 820, the financial instruments have been categorized, based on the degree of subjectivity inherent in the valuation technique, into a fair value hierarchy of three levels, as follows:

Level 1. Inputs are unadjusted, quoted prices in active markets for identical instruments at the measurement date (e.g. U.S. Government securities and active exchange traded equity securities).

Level 2. Inputs (other than quoted prices included within Level 1) that are observable for the instrument either directly or indirectly (e.g. certain corporate and municipal bonds and certain preferred stocks). This includes (i) quoted prices for similar instruments in active markets, (ii) quoted prices for identical or similar instruments in markets that are not active, (iii) inputs other than quoted prices that are observable for the instruments, and (iv) inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3. Inputs that are unobservable. Unobservable inputs reflect the reporting entity's subjective evaluation about the assumptions market participants would use in pricing the financial instruments (e.g. certain structured securities and privately held investments).

The appraisal performed by an engineering company of the Mutual Ditch Company used Level 2 inputs whereby the water rights were valued using comparable prices in markets that are not active. The infrastructure of the Mutual Ditch Company, including water storage, ditches and diversion points, was valued at replacement cost less physical obsolescence and deterioration.

As of December 31, 2010 the Company possesses water rights whose fair value will be measured at least on an annual basis. The Company possesses financial instruments of a short-term nature, such as cash, prepaid expenses, advances receivable, accounts payable, accrued liabilities, advances payable and convertible debenture, whose fair value can be approximated due to their short maturity.

Notes Receivable

The Company carries its notes receivable at cost or loan balance, subject to the valuation procedures described below. The book value of these financial instruments is representative of their fair values. As of December 31, 2010 and 2009, the Company had a total of \$227,000 and \$232,000, respectively, invested in mortgages receivable, net of an allowance for bad debt of \$144,000 and \$139,000, respectively.

Interest is accrued monthly on notes receivable as earned and is no longer accrued if the loan becomes more than 90 days past due. The Company provides a valuation for certain loans that are delinquent. The valuation account is netted against notes receivable. As of December 31, 2010, \$3,000 of interest was being accrued on one of the two remaining loans. The other loan is in default and under legal action (see Note 12 on page [INSERT PAGE NUMBER]). The mortgage that was classified as current was paid off in February 2011.

Investments

Investments in publicly traded equity securities over which Two Rivers does not exercise significant influence are recorded at market value in accordance with ASC 320 "Investments - Debt and Equity Securities," which requires that all applicable investments be classified as trading securities, available for sale securities or held-to-maturity securities. Comprehensive income includes net income or loss and changes in equity from the market price variations in stock and warrants held by the Company.

Investments in non-publicly traded equity securities or non-marketable equity securities are stated at the lower of cost or estimated realizable value.

Other Real Estate Owned

Other real estate owned is comprised of real estate and other assets acquired through foreclosure, acceptance of a deed in lieu of foreclosure or otherwise acquired from the debtor in lieu of repayment of the debt. Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Revenues, expenses and subsequent adjustments to fair value less estimated costs to sell are classified as expenses for other real estate owned. Depreciation is taken on property held and rented or with intent to rent. Depreciation on residential real estate is computed straight-line over 27.5 years.

Intangibles

Intangibles with an indefinite life. Two Rivers recognizes the estimated fair value of water rights acquired by the Company's purchase of stock in the Mutual Ditch Company. This intangible asset will not be amortized because it has an indefinite remaining useful life based on many factors and considerations, including, the historical upward valuation of water rights within Colorado. Once per quarter, Management will assess the value of the water rights held, and in their opinion, if the rights have become impaired, Management will establish an allowance against the water rights.

Impairments

The market values of our assets are assessed quarterly by Management. If the current market value is less than the net carrying value of the assets, an impairment charge is taken. Subsequently, if market value recovers and the asset is held for sale, the impairment taken is recaptured, up to the amount of the accumulated impairment for each asset. If the asset is held for long term, and the market value recovers, no recapture of impairment will be made.

| Part 1—Real estate owned at end of period (in thousands) | | | | | | Part 2—Rental income (in thousands) | | | |
|--|--|---|---|--|--|--|--|---|--|
| Column A—List classification of property as indicated below | Column B—Amount of encum-brances | Column C—Initial cost to company | Column D—Cost of improve-ments, etc. | Column E—Amount at which carried at close of period | Column F—Reserve for depreciation and impairments | Column G—Rents due and accrued at end of period | Column H—Total rental income applicable to period | Column I—Expended for interest, taxes, repairs and expenses | Column J—Net income applicable to period |
| Farms | | | | | | | | | |
| Residential | | | | | | | | | |
| | | | | | | | | | |
| Apartment and business | - | - | - | - | - | - | - | - | - |
| Unimproved | - | - | - | - | - | - | - | - | - |
| VA | - | 123 | - | 123 | 93 | - | - | 1 | (1) |
| CO | 600 | 1,280 | - | 1,280 | | | | 1 | (1) |
| Total | 600 | 1,403 | - | 1,403 | 93 | - | 1 | 2 | (1) |
| Rent from properties sold during period | | | | | | | | | |
| AZ | | | | | | | | | |
| Total | 600 | 1,403 | - | 1,403 | 93 | - | 1 | 2 | (1) |

| Real Estate Detail (in thousands) | Other Real | | |
|--|--------------------|-----------------|---------|
| | Boston Property | Estate Owned | Total |
| Beginning Balance: As of 12-31-09 | \$2,073 | \$2,033 | \$4,106 |
| Additions during the period: | | | |
| Acquisitions through foreclosure | | | 0 |
| Other acquisitions | | 400 | 400 |
| Improvements, etc. | 367 | 13 | 380 |
| Other (describe) – impairment reclassification | | | 0 |
| Deductions during the period: | | | 0 |
| Cost of real estate sold | (2,033) | (1,084) | (3,117) |
| Impairments | (407) | (52) | (459) |
| Other (describe) - depreciation | | | |
| Ending Balance, Dec 31,2010 | \$0 | \$1,310 | \$1,310 |

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Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed principally on the straight-line method over the estimated useful life of each type of asset which ranges from three to seven years. Leasehold improvements are amortized over the remaining term of the applicable leases or their useful lives, whichever is shorter. Maintenance and repairs are charged to expense as incurred; improvements and betterments are capitalized. Upon retirement or disposition, the related costs and accumulated depreciation are removed from the accounts, and any resulting gains or losses are credited or charged to income.

Below is a summary of premises and equipment:

| Asset Type | Life in Years | December 31, 2010 | December 31, 2009 |
|-------------------------------|---------------|----------------------|----------------------|
| Office equipment & Furniture | 5 – 7 | \$ 74,000 | \$ 86,000 |
| Computers | 3 | 59,000 | 52,000 |
| Vehicles | 5 | 45,000 | - |
| Farm equipment | 7 | 39,000 | - |
| Mobile office | 10 | 10,000 | - |
| Irrigation system | 10 | 31,000 | - |
| Website | 3 | 2,000 | 2,000 |
| Subtotal | | 260,000 | 140,000 |
| Less Accumulated Depreciation | | 107,000 | 46,000 |
| Net Book Value | | \$ 153,000 | \$ 94,000 |

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, trade receivables and payables approximated their fair value because of their short-term nature. Investments in debt securities are recorded at their amortized cost, which approximates fair value because of their short-term maturity. Investments in marketable equity securities are recorded at fair value based upon quoted market prices. Investments in non-marketable equity securities are based upon recent sales of similar securities by the investees and approximated their carrying value. The Company's borrowings approximate their carrying amounts based upon interest rates currently available to the Company.

*Revenue Recognition**Farm Revenues*

Revenues from farming operations are recognized when sold into the market. All direct expenses related to farming operations are capitalized as inventory and recognized as a direct cost of sale upon the sale of the crops.

Stock Based Compensation

Beginning January 1, 2006, the Company adopted the provisions of ASC 718 and accounts for stock-based compensation in accordance with ASC 718. Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which generally is the vesting period. The Company elected the modified-prospective method, under which prior periods are not revised for comparative purposes. The valuation provisions of ASC 718 apply to new grants and to grants that were outstanding as of the effective date and are subsequently modified.

All options granted prior to the adoption of ASC 718 and outstanding during the periods presented were fully-vested at the date of adoption.

In December 2007, the SEC issued Staff Accounting Bulletin (“SAB”) 110 which was issued to express the understanding that the use of a “simplified” method, as discussed in SAB 107 in developing an estimate of expected term of “plain vanilla” share options in accordance with ASC 718 would be acceptable beyond December 31, 2007. The Company adopted this standard beginning January 2008.

Income Taxes

Provision for income taxes represents actual or estimated amounts payable on tax return filings each year. Deferred tax assets and liabilities are recorded for the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts reported in the accompanying balance sheets, and for operating loss and tax credit carry forwards. The change in deferred tax assets and liabilities for the period measures the deferred tax provision or benefit for the period. Effects of changes in enacted tax laws on deferred tax assets and liabilities are reflected as adjustment to the tax provision or benefit in the period of enactment.

Net Income (Loss) per Share

Basic net income per share is computed by dividing net income (loss) attributed to Two Rivers available to common shareholders for the period by the weighted average number of common shares outstanding for the period. Diluted net income (loss) per share is computed by dividing the net income for the period by the weighted average number of common and potential common shares outstanding during the period.

The dilutive effect of 5,713,088 RSUs, 1,745,562 options and 2,815,000 warrants at December 31, 2010, has not been included in the determination of diluted earnings per share since, under ASC 260 they would anti-dilutive.

Comprehensive Income (Loss)

Comprehensive income (loss) includes net income or loss and changes in equity from the market price variations in securities held by the Company. At December 31, 2010, no marketable securities were held. At December 31, 2009, there were no remaining shares of BPZ to sell, and during the year ending December 31, 2009 the remaining shares of BPZ were sold representing a gain of \$127,000. Also in 2009, the Company sold other securities for a net loss of \$94,000, for a net gain of \$33,000.

Recently issued Accounting Pronouncements

On December 23, 2009, the FASB issued ASU 2009-16 to amend U.S. GAAP to incorporate the guidance from ASC 860, *Accounting for Transfers of Financial Assets – an Amendment of FASB Statement No. 140*. ASU 2009-16 enhances information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. ASU 2009-16 is effective for the Company’s fiscal year beginning January 1, 2010. The Company is currently evaluating the impact of the future adoption of Update 2009-16.

On December 23, 2009, the FASB issued ASU 2009-17 to amend U.S. GAAP to incorporate the guidance from ASC 810, *Amendments to FASB Interpretation No. 46R*. ASC 810 is a revision to FASB Interpretation No. 46R (ASC 810), Consolidation of Variable Interest Entities, and changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The objective of ASC 810 is to amend certain requirements of FIN 46®, to improve financial reporting by enterprises involved with VIEs and to provide more relevant and reliable information to users of financial statements. ASU 2009-17 is effective for the Company's fiscal year beginning January 1, 2010. The Company has adopted this guidance in accounting for its 50% ownership in HCIC for the year ended December 31, 2009.

ASC 715, *Employers' Disclosures about Postretirement Benefit Plan Assets*, amends US GAAP surrounding *Employers' Disclosures about Pensions and Other Postretirement Benefits*, to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The objectives of the disclosures about plan assets in an employer's defined benefit pension or other postretirement plan are to provide users of financial statements with an understanding of 1) how investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies, 2) the major categories of plan assets, 3) the inputs and valuation techniques used to measure the fair value of plan assets, 4) the effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period, and 5) significant concentrations of risk within plan assets.

ASC 715 was effective for the Company's year ended December 31, 2009. The adoption of ASC 715 did not have a material effect on the Company's financial statements.

FASB Statement No. 165, Subsequent Events (SFAS 165) (subsequently incorporated into the FASB Accounting Standards Codification – ASC 855) establishes general standards of accounting and disclosure of event that occurs after the balance sheet date but before the financial statements are issued or are available to be issued. In particular, this guidance sets forth 1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, 2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and 3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date.

The Company adopted the tenets of the guidance surrounding *Subsequent Events* during its year ended December 31, 2010, the effects of which are more fully described in Note 14.

There were various other accounting standards and interpretations issued in 2010 and 2009, none of which are expected to have a material impact on the Company's financial position, operations or cash flows.

NOTE 3 – NOTES RECEIVABLE

Notes Receivable – General

During the year ended December 31, 2007, the Company entered a transaction with a former officer of the Company, Mr. Robert Grizzle. In exchange for Mr. Grizzle's shares in the Company, on May 3, 2007, Mr. Grizzle executed a note payable to the Company in the amount of \$450,000. The note carried an 8% interest rate and was collateralized by 1,000,000 Aegis USA common shares, 1,500,000 Aegis USA preferred shares, 220,000 shares of the Company's common stock and 200,000 options to purchase shares of the Company's common stock at \$0.05 per share held by Mr. Grizzle. The note was a limited recourse note whereby Mr. Grizzle was personally responsible for one half the original principal and interest. The balance owed was collateralized by Mr. Grizzle's Aegis common and preferred shares and the Company's common stock. Further, the note provided that at the earlier of one year from the date that the common stock of the Company is publicly traded and his shares are registered for resale under an effective registration statement filed by the Company or December 31, 2009. On September 30, 2007, Mr. Grizzle resigned as the Chief Operating Officer and the Chief Financial Officer of the Company. On October 17, 2008, the Company filed with the SEC an S-8 registration statement registering Mr. Grizzle's shares.

During 2009, Mr. Grizzle paid \$155,000 against principal plus all accrued interest through November 24, 2009. During the year ended December 31, 2010, in order for the Company to receive a \$215,000 loan from a private party, the Company's Board authorized the assignment of the Company's collateral in the Grizzle note to the lender. Further, the Board authorized the full release of the note receivable from Grizzle. The Company recognized the fair value of the note receivable released as an additional cost of land and water shares for the year ending December 31, 2010.

Assets held for sale

Mortgages Receivable

In July 2007, Northsight began making short term loans to purchasers of residential properties who purchase their property as part of or after the repossession in a foreclosure proceeding. The loans were made primarily to good credit borrowers and are collateralized by a first mortgage on the purchased properties.

In June 2008, the Company transferred the ownership of the short term loans from Northsight, Inc. to the Company. Due to this transfer, the Company funded and owned the loans. As of December 31, 2010, Two Rivers had \$227,000 (net of allowance of \$144,000) in such loans. As of December 31, 2009, Two Rivers had \$232,000 (net of allowance of \$139,000) in such loans. As of December 31, 2010 and December 31, 2010, \$253,000 represented by one loan, was past 90 days due.

Summary of Receivables

| Note From | Due | Principal Amount | 12/31/10 Balance | Annual Interest rate | Accrued Interest | Collateral |
|---------------------------|----------------------|------------------|------------------|----------------------|------------------|----------------|
| Short term home mortgages | Various and on-going | \$ 371,000 | \$ 371,000 | 9.95% to 14% | \$ - | First mortgage |
| Less: Impairments | | | (144,000) | | | |
| Net Balance | | | \$ 227,000 | | | |

Other real estate owned

The Company owns property it acquired through foreclosing proceedings. All of the property is being held for sale.

| | Dec 31, 2010 | Dec 31, 2009 |
|----------------------------------|--------------|--------------|
| Real estate owned | \$ 123,000 | 1,395,000 |
| Allowance for: | | |
| Real Estate owned – depreciation | - | 40,000 |
| Real Estate owned – impairments | 93,000 | 313,000 |
| Total | \$ 30,000 | 1,042,000 |

Summary of Assets held for sale:

| | Dec 31, 2010 | Dec 31, 2009 |
|----------------------------|--------------|--------------|
| Mortgage receivables - net | \$ 228,000 | 232,000 |
| Real estate owned – net | 30,000 | 1,042,000 |
| Total | \$ 258,000 | 1,274,000 |

NOTE 4 – INVESTMENTS

In December 2007, Northsight, Inc. (a 98% owned subsidiary of the Company) purchased a three unit property in Boston, Massachusetts, known as Thomas Park. The objective was to rehabilitate the property and then sell it. During the quarter ending June 30, 2008, this property was transferred to Southie Development, LLC (a 100% owned subsidiary of the Company). As of December 31, 2009, the Company and subsidiaries had invested \$2,962,000 in the property. Part of this investment was funded by a \$1,200,000 line of credit from Mt. Washington Cooperative Bank, of which \$950,000 was payable on this line as of December 31, 2009. At the end of 2009, the Company performed an analysis of the fair market value of the Thomas Park and reduced the market price by a 6% cost of sale and \$240,000 estimated to complete the project and determined an allowance/impairment of \$397,000 was necessary. During 2010, the three units were sold and the line of credit from Mt. Washington Cooperative Bank was fully paid. Net proceeds from Thomas Park after cost of sales and before the line of credit payoff was \$1,925,000.

The Company also has acquired real estate through foreclosure or deed in lieu of foreclosure (“REO”) from its activity in granting short term mortgage financing. At December 31, 2009, the valuation of these real estate owned properties was \$1,396,000 less an impairment allowance of \$313,000 and accumulated depreciation on the rental properties of \$40,000, for a net balance of \$1,042,000. At December 31, 2010 all of the Company’s REO properties were sold except for two vacant lots in Virginia. The valuation of these real estate owned properties is \$123,000 less an impairment allowance of \$93,000 for a net balance of \$30,000.

Land and water shares

Upon purchasing water shares and land, the value is recorded at the purchase price. After a majority interest is acquired in a company holding water assets, the Company engages a certified appraiser to determine the valuation of the acquired water assets. If the value of the water assets are greater than what the Company paid then a bargain purchase gain is recognized. If the value of the water assets are less than what the Company paid then goodwill is recognized.

Subsequent to purchase, management evaluates the carrying value, and if the carrying value is in excess of fair market, will establish an impairment allowance to reflect current fair market value. Currently, there are no impairments on the land and water shares. No amortization or depreciation is taken on the water shares and land, respectively.

Options on real estate

Under the terms of the HCIC joint venture, the non-related party owning 50% of HCIC, TRB, contributed options on purchasing the Mutual Ditch Company along with purchase agreements for acquiring land. TRB also contributed cash being held in escrow or that had been paid to owners of the shares of the Mutual Ditch Company. The Company initially valued TRB’s contribution to HCIC at \$2,850,000. As of September 30, 2010 all of the value of TRB’s contribution was transferred into the fair value of the Mutual Ditch Company. As of December 31, 2010 no options remained for the purchase of interest in the Mutual Ditch Company.

Dam construction

The Company has commenced engineering for the reconstruction of the dam owned by the Mutual Ditch Company. These costs are capitalized, added to the cost of the dam, and not amortized or depreciated until the dam reconstruction is completed in accordance with ASC 360 and 835.

| | Year ended | |
|---------------------------|-------------------|-------------------|
| | Dec 31 2010 | Dec 31, 2009 |
| Beginning balance | \$ 163,000 | \$ - |
| Additions | 326,000 | 163,000 |
| Retirements, deletions | - | - |
| Depreciations | - | - |
| Ending Balance | <u>\$ 489,000</u> | <u>\$ 163,000</u> |

NOTE 5 – NOTES PAYABLE

In May 2008, Northsight arranged for a construction line of credit for \$1,200,000, due November 2009. Proceeds from this line were used strictly for the renovation of the Thomas Park property in Boston with the intent to resale. As of September 30, 2010, this line of credit was paid in full.

Beginning on September 17, 2009, HCIC began acquiring shares in the Mutual Ditch Company and related land from a Mutual Ditch Company shareholder. As part of these acquisitions, many sellers took back notes payable by HCIC to the seller. As of December 31, 2009 these loans totaled \$2,175,000. As of December 31, 2010 these loans totaled \$9,126,000. The notes carry interest at 6% per annum, interest payable monthly, the principal due September 1, 2012 through September 30, 2013, and are collateralized by the Mutual Ditch Company shares and land.

Of the \$9,126,000 in seller carry back notes, \$2,705,000 provides the holders the right to convert some or all of the amounts owing into the Company's stock at \$1/share to \$1.25/share. The holder can convert anytime until the note is paid. Since the stock conversion can happen at any time, ASC 470-20-35-7c2 requires a computation between the fair value of the Company's common shares and the conversion price. Any intrinsic value must be recognized on the date of the note as an increase to interest expense and an increase to additional paid in capital. During the three months ended March 31, 2010, \$864,000 of notes payable was incurred by the Company. These notes allow the holder to convert \$1 of debt for one share of the Company's common stock. Since the Company was offering a \$1/share private placement with similar terms to the note payable conversion provisions, no additional interest expense was recognized.

During the three months ended September 30, 2010 the Company incurred an additional \$1,841,000 in notes payable for additional shares of the Mutual Ditch Company. This note payable is at 6% per annum, interest payable monthly and due on September 30, 2013. The terms of the notes payable allows the holder to convert up to \$1,250,000 of debt into 1,000,000 shares of the Company's common stock at any time after September 30, 2010 for \$1.25 per share. This beneficial conversion incurred an additional interest expense of \$325,000 in the three months ending December 31, 2010.

NOTE 6 – INFORMATION ON BUSINESS SEGMENTS

We organize our business segments based on the nature of the products and services offered. We primarily focus on the Water Business with Two Rivers Water Company as the parent company and TRWC and HCIC Holdings JV as subsidiaries. Two Rivers Water Company also holds our legacy assets that include the mortgage notes receivable, the property acquired through foreclosure or deed in lieu of foreclosure on previous mortgage notes held by the Company. Other existing and prior real estate activity is held in Northsight and Northsight's subsidiaries, Northsight Mortgage LLC, Southie and Legendary. Southie was a wholly owned subsidiary of Two Rivers until the Company's board approved the transfer of Southie as a 100% owned subsidiary of Northsight effective January 1, 2010.

In the following tables of financial data, the total of the operating results of these business segments is reconciled, as appropriate, to the corresponding consolidated amount. There are some corporate expenses that were not allocated to the business segments, and these expenses are contained in the "Total Operating Expenses" under Two Rivers Water Company.

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Operating results for each of the segments of the Company are as follows (in thousands):

| | For the year ended December 31, 2010 | | | | | | | | | |
|---|--------------------------------------|----------------------|-----------------|--|------|------------------------|------------------------|-------------------------|-------------------------------|----------------------------|
| | Two Rivers Water Co. | North-sight, Inc. | Southie, LLC | Legendary Investment Group, LLC | TRWC | HCIC Holdings JV | Two Rivers Farms | Two Rivers Energy | Two Rivers Water LLC | Mutual Ditch Company |
| Revenue | | | | | | | | | | |
| Loan fees, interest and other | \$ | | - | - | | | | | | - |
| Assessments | | | | | | | | | | 25 |
| Farm Revenue | | | | | | | 153 | | | |
| Water Revenue | 15 | | | | | | | | | |
| Other & misc. | | | | - | | | 3 | | | |
| Less: Cost of Services | | | | | | | | | | |
| Gross Profit | 15 | - | - | - | - | - | 156 | - | - | 25 |
| Total Operating Expenses | 7,166 | | | | 29 | 555 | 457 | 15 | 155 | 427 |
| Total Other Income/(Expense) | | | | | | | | | | |
| Net (Loss) Income from continuing operations before income taxes | (7,151) | - | - | - | (29) | (555) | (301) | (15) | (155) | (402) |
| Income Taxes (Expense)/Credit | - | - | - | - | - | - | - | - | - | - |
| Net Income (Loss) from continuing operations | (7,151) | - | - | - | (29) | (555) | (301) | (15) | (155) | (402) |
| Discontinued operations: | | | | | | | | | | |
| (Loss) gain from operations of discontinued real estate and mortgage business | 17 | (161) | (769) | 59 | | | | | | |
| Income tax benefit | - | - | - | - | - | - | - | - | - | - |
| Loss on discontinued operations | 17 | (161) | (769) | 59 | - | - | - | - | - | - |
| Non-controlling interest | | | | | | - | - | - | - | (4) |
| Net (Loss) Income | \$ (7,134) | (161) | (769) | 59 | (29) | (555) | (301) | (15) | (155) | (406) |
| Segment assets | \$ 848 | 70 | 1 | - | - | 25,603 | 105 | 1 | 8 | 562 |

| For the year ended December 31, 2009 | | | | | | |
|---|------------------------|---------------------|----------------|---------------------------------------|-------------|---------------------|
| | Two Rivers Water Co | Northsight, Inc. | Southie, LLC | Legendary Investment Group, LLC | TRWC | HCIC Holdings JV |
| Revenue | | | | | | |
| Loan fees, interest and other | \$ 11 | - | - | - | - | - |
| Assessments | - | - | - | - | - | - |
| Farm Revenue | | | | | | |
| Water Revenue | | | | | | |
| Other & misc. | - | - | - | - | - | - |
| Less: Cost of Services | - | - | - | - | - | - |
| Gross Profit | 11 | - | - | - | - | - |
| Total Operating Expenses | 1,316 | - | - | - | 52 | 312 |
| Total Other Income/(Expense) | 59 | - | - | - | | (39) |
| Net (Loss) Income from continuing operations before income taxes | (1,246) | - | - | - | (52) | (351) |
| Income Taxes (Expense)/Credit | 314 | - | - | - | - | - |
| Net Income (Loss) from continuing operations | (932) | - | - | - | (52) | (351) |
| Discontinued operations: | | | | | | |
| (Loss) gain from operations of discontinued real estate and mortgage business | 44 | (351) | (1,571) | (48) | - | - |
| Income tax benefit | - | 60 | 101 | - | - | - |
| Loss on discontinued operations | - | (291) | (1,470) | (48) | - | - |
| Non-controlling interest | - | - | - | - | - | 175 |
| Net (Loss) Income | \$ (888) | (291) | (1,470) | (48) | (52) | (176) |
| Segment assets | \$ 1,708 | 125 | 3,093 | 42 | 7 | 6,230 |

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NOTE 7 - EQUITY TRANSACTIONS

Common Stock

During the year ended December 31, 2009, the Company issued 150,000 shares at \$1.00 per share through a private placement and 200,000 shares through the exercise of 200,000 options at \$0.05 per share.

During the year ended December 31, 2009, the Company recognized stock-based compensation expense of \$118,000, recovered BPZ stock valued at \$143,000 and purchased 154,474 shares of the Company's stock on the open market for \$93,000. These shares were retired.

During the year ended December 31, 2010 the Company's Board authorized a private placement of up to 5,000,000 shares at \$1.00 per share to accredited investors. This offering was closed on August 31, 2010 with gross proceeds of \$2,900,000, representing issuance of 2,900,000 shares of the Company's common stock, less \$196,000 in direct offering costs. The gross proceeds include the issuance of 500,000 shares valued at \$1.00 per share for the purchase of land and water shares in the Mutual Ditch Company.

During the year ended December 31, 2010 the Company issued 223,333 shares valued at \$296,000 in exchanged for services provided by consultants and directors. This included 20,000 shares issued to the non-employee board of directors.

Stock Options and Restrictive Stock Units (RSUs)

The Company has a Stock Incentive Plan (the "Incentive Plan"), that allows the Company to grant incentive stock options and/or purchase rights (collectively "Rights") to officers, employees, former employees and consultants of the Company and its subsidiaries. The Board has given the ability to grant Rights to the CEO.

A summary of the Two Rivers option plan is as follows:

| | Shares | Weighted Average Exercise Price |
|--|-------------|--|
| Outstanding, January 1, 2009 | 3,941,510 | \$ 1.33 |
| Granted | - | - |
| Cancelled | (110,000) | \$ 2.00 |
| Expired | - | - |
| Exercised | (200,000) | \$ 0.05 |
| Outstanding, January 1, 2010 | 3,631,510 | \$ 1.38 |
| Granted | 20,000 | \$ 2.00 |
| Cancelled | (1,905,948) | \$ 1.41 |
| Expired | - | - |
| Exercised | - | - |
| Outstanding, December 31, 2010 | 1,745,562 | \$ 1.37 |
| Options Exercisable, December 31, 2010 | 1,712,229 | \$ 1.36 |

A summary of the Northsight option plan is as follows:

| | Shares | Weighted Average Exercise Price |
|--|---------------|--|
| Outstanding, January 1, 2009 | 582,777 | \$ 0.50 |
| Granted | - | - |
| Cancelled | (562,777) | \$ 0.50 |
| Expired | - | - |
| Exercised | - | - |
| Outstanding, January 1, 2010 | 20,000 | \$ 0.50 |
| Granted | 200,000 | \$ 0.50 |
| Cancelled | (20,000) | \$ 0.50 |
| Expired | - | - |
| Exercised | - | - |
| Outstanding, December 31, 2010 | 200,000 | \$ 0.50 |
| Options Exercisable, December 31, 2010 | 200,000 | \$ 0.50 |

During the year ended December 31, 2010, the Company converted for an employee 20,000 Northsight stock options to 20,000 options in Two Rivers.

Northsight issued 200,000 of its stock options to the purchaser of Legendary. Using the Black-Scholes model of fair value, the total expense to recognize was less than \$1,000 and therefore no expense was recognized.

If all of the Northsight options outstanding at December 31, 2010 were exercised, the impact on the minority interest would be immaterial.

The Black-Scholes model of fair value was used using the following variables:

| | |
|---------------------------------|------------|
| Expected stock price volatility | 122% |
| Risk-free interest rate | 2.64% |
| Expected option life (years) | 3.3 to 5.2 |
| Expected annual dividend yield | 0% |

In December 2007, the SEC issued Staff Accounting Bulletin (“SAB”) 110 which was issued to express the understanding that the use of a “simplified” method, as discussed in SAB 107 in developing an estimate of expected term of “plain vanilla” share options in accordance with ASC 718 would be acceptable beyond December 31, 2007. The Company adopted this standard beginning January 2008, and it did not have a material impact on the Company’s consolidated financial statements.

The fair value of each option award is estimated on the date of grant using a Black-Scholes option pricing model that uses the assumptions noted in the table below. Because this option valuation model incorporates ranges of assumptions for inputs, those ranges are disclosed above. The Company utilizes historical volatility of other entities in a similar line of business for a period commensurate with the contractual term of the underlying financial instruments and used weekly intervals for price observations. The Company will continue to consider the volatilities of those entities unless circumstances change such that the identified entities are no longer similar to the Company or until there is sufficient information available to utilize the Company's own stock volatility. The risk-free rate for periods within the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The Company believes these estimates and assumptions are reliable. However, these estimates and assumptions may change in the future based on actual experience as well as market conditions.

During the year ended December 31, 2010, the Company converted 1,905,948 of its stock options to RSUs. Under ASC 718, a computation was made to perform a fair value of the options and the fair value of the RSUs. Further, during the year ended December 31, 2010, an additional 3,807,140 RSUs were granted to the Company's key employees. The expense recognized for the year ended December 31, 2010 is \$4,841,000. The remaining unamortized amount is \$4,580,000. Upon the change of RSU vesting schedules, the valuation of the RSUs were recomputed and amortized in 2010. The RSUs vest over a three year period, beginning in January, 2011.

| | Shares |
|-------------------------------------|---------------|
| Outstanding, January 1, 2010 | - |
| Granted | 5,713,088 |
| Cancelled | - |
| Expired | - |
| Exercised | - |
| Outstanding, December 31, 2010 | 5,713,088 |
| RSUs Exercisable, December 31, 2010 | - |

Warrants

At the Company's Board meeting held on February 26, 2010, the Board authorized to extend its existing warrants from a May and July, 2010 expiration date to an expiration date of December 31, 2010. At the Company's Board meeting held on December 16, 2010, the Board authorized to extend its \$1.00 warrants from a December 31, 2010 expiration to an expiration date of December 31, 2011.

The following warrants to purchase common stock are outstanding:

| Number of common shares covered by warrants | Exercise Price | Expiration Date |
|--|-----------------------|------------------------|
| 1,332,500 | \$ 4.00 | December 31, 2010 |
| 1,332,500 | 2.00 | December 31, 2010 |
| 150,000 | 1.00 | December 31, 2011 |
| <u>2,815,000</u> | | |

Due to the extension of the warrant expiration date, a new fair value calculation was performed using the Black-Scholes method using the following variables:

| | |
|---------------------------------|------------|
| Expected stock price volatility | 35% |
| Risk-free interest rate | 2.64% |
| Expected option life (years) | 3.3 to 5.2 |
| Expected annual dividend yield | 0% |

Based on this calculation, an expense of \$218,000 was recognized for the year ended December 31, 2010.

NOTE 8 – INCOME TAXES

At December 31, 2010, the Company generated a net operating loss. Prior net operating tax losses were carried back and no other tax refund exist for prior taxes paid. Therefore, any operating tax losses generated will be carried forward. However, there is no certainty that the Company will reach profitability to utilize the tax loss carry forwards. Therefore, no tax receivable is recognized. The calculations are as follows:

Statutory Rate Reconciliation

| | |
|-------------------------------|---------|
| Federal Rate | 34.00% |
| State Rate | 4.63% |
| Federal benefit of State Rate | (1.57)% |
| Net Effective Rate | 37.06% |

Tax asset recognition (in thousands):

| | |
|--|------------|
| Loss reported on financials before taxes | \$ (9,466) |
| Tax adjustments: | |
| Non-deductible impairment expense | 468 |
| RSUs and stock option expense | 4,841 |
| Entertainment and other items | 17 |
| Adjusted taxable loss | (4,140) |
| Net Effective Rate | 37.06% |
| Tax Benefit from Loss Carryback | \$ (1,534) |
| Deferred tax asset valuation allowance | 1,534 |
| Income tax receivable as of Dec 31, 2010 | \$ - |

For the year ended December 31, 2010 and December 31, 2009 the deferred tax asset of \$1,534,000 and \$277,000, respectively, for a total of \$1,811,000 is not recognized, since management has determined the tax benefit cannot be reasonably assured of being used in the near future. The net operating loss carryforward, if not used, will expire in various years through 2030, and is severely restricted as per the Internal Revenue Code if there is a change in ownership.

Our provision for federal and foreign income tax expense consisted of the following components:

| (in thousands) | 2010 | 2009 |
|---------------------------------|------|-------|
| Federal income taxes (benefit): | | |
| Current | \$ - | (433) |
| Deferred | - | (273) |
| Total Federal income taxes | - | (706) |
| State income taxes: | | |
| Current | - | (50) |
| Deferred | - | (4) |
| Total state income taxes | - | (54) |
| Total Income Taxes | \$ - | (760) |

NOTE 9 – DISCONTINUED OPERATIONS

During the year ended December 31, 2009, the Company decided to shift its focus from the short term residential mortgage banking and ownership of residential rental property to the Water Project. In order to assist in the funding of the Water Project, the Company began an orderly liquidation of its mortgage and real estate assets. It is expected that this liquidation will be completed by December 31, 2010.

The assets to be liquidated are presented at the lower of cost or current market values, as of December 31, 2010 and December 31, 2009 and are detailed as follows:

| (in thousands) | Dec 31, 2010 | Dec 31, 2009 |
|--|--------------|--------------|
| Mortgages receivable | \$ 371 | \$ 371 |
| Thomas Park project | - | 2,962 |
| Other real estate owned | 123 | 1,529 |
| Subtotal | 494 | 4,862 |
| Less allowances and depreciation | (237) | (1,381) |
| Net book value of property to sell | 257 | 3,481 |
| Less amounts owed on real estate to be sold | - | (950) |
| Net projected proceeds from mortgage receivables, Thomas Park, and other real estate owned | \$ 257 | \$ 2,531 |

Within the discontinued operations, during the year ended December 31, 2010 and 2009, the Company recognized a loss on disposal of real estate of \$153,000 and a loss of \$8,000, respectively.

Within the discontinued operations, and not including the loss on disposal of real estate, during the year ended December 31, 2010 and 2009, the Company had \$76,000 and \$206,000 in revenue, respectively.

Because it is Management's estimate that the above assets to be sold are stated at the lower of cost or current fair market value, when these assets are sold it is projected not to be a further gain or loss. However, market conditions can change which would then cause a gain or loss to be recognized upon sale.

These assets are held in the Company's subsidiaries Northsight and Southie.

On June 30, 2010, the Company sold its 100% interest in Legendary to its acting broker, a previous employee of Legendary, for a sales price of \$9,000 plus the buyer assuming the office lease. Legendary's business consisted of residential real estate brokerage and residential real estate management in the Phoenix area. The Company recognized a net gain of \$12,000.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Operating Leases

In August 2005, the Company along with its subsidiary, Northsight entered into an office lease for the Phoenix operations for a monthly payment of \$6,697, plus pass throughs, per month. The lease expired July 31, 2010. In July 2009, the Company negotiated an early termination of this lease for a onetime payment of \$25,000.

In February 2008, the Company along with its subsidiary, Northsight opened offices at 2000 S. Colorado Blvd, Suite 200, Denver, Colorado. The lease for this office is \$4,701 per month, plus pass throughs. The lease expired March 15, 2011. The Company has entered into a new 12-month lease (expiring March 15, 2012) at the same location for \$1,100 per month.

The amounts due at the base rate are as follows:

| Period | Amount Due |
|--------|------------|
| 2011 | \$ 20,000 |
| 2012 | \$ 3,000 |
| 2013 | -0- |

For the years ended December 31, 2010 and 2009, respectively, total office, equipment and facilities rental was \$109,000 and 165,000.

Defined Contribution Plan

Two Rivers has a 401(k) profit sharing plan (the "Plan"). Subject to limitations, eligible employees may make voluntary contributions to the Plan. The Company may, at its discretion, make additional contributions to the Plan. The Company did not contribute during the years ended December 31, 2010 or December 31, 2009.

NOTE 11 – RELATED PARTY TRANSACTIONS

In August 2009, the Company signed a one year lease for office space to be used by Two Rivers Water Company in Walsenburg Colorado. The rate is \$600 per month. The building is owned by an officer of a subsidiary of the Company. Management believes that this rent payment approximates the fair market value. This lease was terminated in January, 2011 and replaced by a month-to-month signage lease at \$200 per month.

On August 18, 2009, the Company loaned \$110,118 to an individual who was subsequently appointed as an officer of a subsidiary of the Company. The note was secured by cattle and 200,000 shares of the Company's common stock. On August 24, 2009, the Company loaned an additional \$11,840 to the same officer using the same collateral being held against the August 18, 2009 note. The notes were due in six months and had an annual interest rate of 5%. On August 19, 2009, the individual who the Company loaned money was appointed an officer of one of the Company's subsidiaries. Due to the limitations of having an officer borrow funds from the Company where that person is an officer, the Company requested repayment of the notes from the officer, which were paid in full with interest on November 10, 2009. On November 10, 2009, the Company purchased 320 acres from the officer for \$260,000. The Company deems this purchase strategic to its expansion in the water business. An independent appraisal valued the land at \$310,000.

On January 29, 2010, the Company purchased 5 shares of the Mutual Ditch Company from a company that is owned by a current director of the Company with a seller carry back note of \$9,000, or 90% of the purchase price. The Company paid the same amount per share and financing as to other sellers of shares of the Mutual Ditch Company. In January 2011, the Company offered to prepay seller financing notes for a 50% discount. On February 21, 2011, the Company paid \$5,000 to fully pay the \$9,000 note.

NOTE 12 – LEGAL PROCEEDINGS

Carson Suit

The Company was a co-defendant in a lawsuit filed on April 2, 2008 in Jackson County Circuit Court in Missouri. The Company loaned money to Lydia Carson (borrower) to purchase a home in Kansas City Missouri. The plaintiffs claimed they had a superior lien on the property that was in place before the borrower borrowed money from the Company for the purchase. On June 30, 2010, the amount owed by Lydia Carson to the Company was \$253,000 (note balance of \$315,000 less escrow held of \$62,000). On April 27, 2010 the Company received a judgment granting the Company a first lien position. The Company is in the process of attempting to collect the judgment.

Morrow Suit

The Company was notified in September, 2009 that it was named as a defendant in a lawsuit that alleges either the Company or another third party bank did not have a proper promissory note and deed of trust against a short-term mortgage loan made to a borrower in April, 2008 (“Morrow” loan and suit). After the Morrow loan was made by the Company, the note was improperly transferred to Jaguar. When the improper transfer was discovered by the Company, the Company requested Jaguar to return all documents to the Company or fund the loan. On August 4, 2008, Jaguar re-assigned the note and deed of trust back to the Company. However, Jaguar never returned to the Company the original lending file and documentation. During the period of time that Jaguar was in possession of the Morrow file, the lawsuit alleges that Jaguar used the Morrow note and deed of trust to obtain money from another third-party bank.

Morrow sold the property representing the security interest via the deed of trust in the note in February 2009. Closing occurred through a title company with title insurance issued. At the closing, the Company received \$77,000 as payoff on the Morrow note. Therefore, the other third party bank did not receive any proceeds. Presently the third party bank is suing the current owner of the property that Morrow sold for payment on the note. The property owner has filed a complaint in State of Colorado, Adam County District Court naming Northsight and the third party bank as defendants. The plaintiff seeks either Northsight to pay the third party bank or for the third party bank to release its claim to the property. If Northsight is not successful in its defense, then its exposure is \$77,000 plus potential fees and interest.

The Company believes it properly received the proceeds and is being represented by legal counsel to defend its position. However, to avoid additional legal fees and potential exposure, the Company is in the process of offering a settlement to the plaintiff and has accrued a contingent liability. A contingency exists with respect to this matter with a contingency recorded for the Company’s estimate of the cost of settlement.

NOTE 13 – SUBSEQUENT EVENTS

The Company has evaluated all subsequent events through the date the financial statements were available to be issued.

The Company's board convened a meeting on February 18, 2010 and passed the following resolutions:

- Approval of the convertible debt private placement to accredited investors to a maximum offering of \$2,000,000. The Company raised \$2,000,000 and closed the offering on March 2, 2011.
- Approval of various business consulting and finder's fee agreements.
- Promotion of Gary Barber to President of Two Rivers Water Company and as Chief Operations Officer.

Subsequent to December 31, 2010 and through March 15, 2010, the Company has sold \$2,000,000 in its current convertible debt private placement.

In January 2011, \$1,700,000 in RSU grants to employees were vested and the Company issued 1,147,614 shares to employees for RSU's vested on January 17, 2011. Payroll withholding on these vested RSUs have yet to be withheld and paid. It is estimated that the withholding due is \$466,000. This delayed payment of withholding could result in IRS penalties against the company of up to 20% of the amount of the withholding due, as well as the Company could be liable for amounts not withheld.

On January 28, 2011 the Company purchased an additional absolute decree to store 3,117 acre feet of water per year along with the associated senior surface flow water rights of approximately 2,500 acre feet per year from the Huerfano River. The purchase price was \$3,100,000 for which the Company paid cash of \$100,000 and issued a note for \$3,000,000.

Exhibit 10.1
John McKowen Employment Agreement

This EMPLOYMENT AGREEMENT (the "Agreement") is effective as of the 1st day of January 2011 by and between John R. McKowen an individual ("Employee"), and Two Rivers Water Company, a Colorado corporation (the "Company").

WHEREAS, the Company has determined that it is in the best interests of the Company and its stockholders to enter into this Agreement setting forth the rights, obligations and duties of both the Company and the Employee; and

WHEREAS, the Company wishes to assure itself of the services of the Employee for the period hereinafter provided, and the Employee is willing to be employed by the Company for said period, upon the terms and conditions provided in this Agreement.

IN CONSIDERATION of the mutual covenants and promises herein contained, and subject to the terms and conditions herein set forth, Employee and the Company hereby agree as follows:

1. Term of Employment; Duties.

(a) The "Term of Employment" shall commence on the effective date of this Agreement and shall continue for an initial term of one (1) years unless earlier terminated as provided in this Agreement (the "Initial Term"). After the Initial Term, the Term of Employment will automatically renew for successive one (1) year terms unless and until either party delivers notice of termination to the other within thirty (30) days of the expirations of the then current term.

(b) During the Term of Employment, the Company shall employ Employee, and Employee shall work for the Company as Chief Executive Officer. In such capacity, Employee shall perform such duties as are traditional and customary to that position and as may be reasonably directed by the Company's Board of Directors.

(c) During the Term of Employment, except as set forth below, Employee shall devote full time and effort to carrying out Employee's duties for the Company hereunder, shall not engage in any activity which would be inconsistent with such duties or with the objectives of the Business (as defined below), and shall diligently perform Employee's obligations and discharge Employee's duties hereunder; *provided, however*, nothing in this Paragraph shall prevent Employee from devoting time to managing investments, family businesses, participating with charitable organizations and trade groups or other similar activities. The "Business" of the Company is to investigate, acquire, and manage business opportunities for the Company.

2. Compensation. During the Term of Employment, the following compensation and benefits shall be payable and provided to Employee:

(a) Employee shall receive from the Company an annual base salary of \$180,000.00 ("Base Salary"), which shall be payable in accordance with the standard practice of the Company in the payment of salaries of its employees. Employee's Base Salary shall be adjusted in accordance with other executives of the Company and its Subsidiaries.

No less frequently than quarterly, the Base Salary and other compensation of Employee will be reviewed and may be adjusted upward at the discretion of the proper authority or group.

Employee shall be entitled to all granted options pursuant to the conditions of the Company's 2005 Stock Option Plan and restricted stock units (RSUs) as follows:

| Award Date | Vesting Date | Type (Option/RSU) | Strike Price | No. of Shares |
|--------------|--------------|-------------------|--------------|---------------|
| Oct 13 2010 | Jan 15 2011 | RSU | n/a | 1,480,948 |
| Oct 13 2010 | Jan 15, 2012 | RSU | n/a | 333,333 |
| Oct 13 2010 | Jan 15, 2013 | RSU | n/a | 333,333 |
| Oct 13, 2010 | Jan 15, 2014 | RSU | n/a | 333,334 |

Note: Refer to the Stock Option or Restrictive Stock Unit Agreement for details ("Stock Agreement"). If there are any conflicts between this Agreement and the Stock Agreement, the Stock Agreement terms and conditions prevail.

(b) The Company shall provide Employee with such medical, hospitalization, insurance, including but not limited to disability insurance, pension plan, profit sharing and employee benefits and such other similar employment privileges and benefits ("Benefits") as are afforded generally from time to time to other executive employees of the Company, and paid vacation each year in accordance to the Company's policy and Employee Handbook.

(c) Employee shall also be eligible to participate in the Company's Management Incentive Plan.

(d) At the sole discretion of the Board, Employee shall receive in addition to his Base Salary annual incentive compensation (an "Annual Bonus") in an amount and in a form to be determined by the Board.

(e) Employee shall be entitled to receive prompt reimbursement for all pre- approved reasonable employment-related expenses incurred by Employee, upon the receipt by the Company of an accounting in accordance with the practices, policies and procedures applicable to other executive employees of the Company.

3. Early Termination: Death. Notwithstanding anything to the contrary in Paragraph 1 hereof, if Employee dies during the Term of Employment, the Term of Employment shall terminate. Upon such termination, Employee's estate or beneficiaries shall be entitled to receive any Base Salary and Benefits earned and accrued but unpaid through the date on which his death occurs. Employee's estate shall receive Employee's Annual Bonus (if any), prorated for the number of months during the fiscal year during which Employee was paid his Base Salary ("Prorated Annual Bonus"). The Prorated Annual Bonus shall be calculated and paid in the ordinary course after completion of the fiscal year. In addition, Employee's family ("Family") shall continue to receive health insurance coverage ("Family Health Insurance") during such one (1) year period, to the extent permitted by the Company's health plan contract(s), or if not permitted, as purchased by the Company at no cost to the Family. The parties shall have no further obligation under this Agreement.

4. Early Termination: Disability. Notwithstanding anything to the contrary in Paragraph 1 hereof, if Employee has at any time been unable, by virtue of illness or other physical or mental disability, to perform substantially and continuously the duties assigned to Employee under this Agreement for a period of ninety (90) consecutive days or one hundred twenty (120) calendar days out of any period of one hundred eighty (180) consecutive calendar days during the Term of Employment and the Board has received a medical opinion from a physician reasonably acceptable to both the Company and the Employee that Employee remains disabled after said period ("Disability"), then the Company shall have the right to terminate the Term of Employment upon notice to Employee. Upon such termination, Employee shall be entitled to receive any Base Salary and Benefits earned and accrued but unpaid through the date of termination, including, without limitation, the additional disability insurance described in Paragraph

2(b) hereof. In addition, the Employee shall have the right to receive a Prorated Annual Bonus to the date of termination. Employee and Family shall continue to receive health insurance coverage during a six month period following the date of termination, to the extent permitted by the Company's health plan contract(s), or if not permitted, as purchased by the Company at no cost to the Family. The parties shall have no further obligation under this Agreement except that Employee shall not be relieved of Employee's obligations under Paragraph 8.

5. Early Termination: Termination by the Company for Cause. Notwithstanding anything to the contrary in Paragraph 1 hereof, the Term of Employment may be terminated by the Company upon notice to Employee for "Cause." The term "Cause" shall mean Employee's: (a) unsatisfactory job performance as determined by a seventy five percent (75%) or greater vote of the Company's Board of Directors of which the Employee's performance is not corrected to the satisfaction of the Board within 30 calendar days; (b) final, unappealable conviction of a felony involving fraud, dishonesty or moral turpitude; (c) willful or intentional violation of Paragraph 8 of this Agreement which breach is not cured within thirty (30) days after Employee's receipt of written notice from the Company; (d) willful or intentional material breach of this Agreement which breach is not cured within thirty (30) days after Employee's receipt of written notice from the Company. Upon such termination, Employee shall be entitled to receive any Base Salary and Benefits earned and accrued but unpaid through the date of termination and a Prorated Annual Bonus to the date of termination. The parties shall have no further obligation under this Agreement except that Employee shall not be relieved of Employee's obligations under Paragraph 8.

6. Early Termination: Termination by the Company without Cause. Early termination by the Company without Cause includes any termination instituted by the Company not covered in Section 5. In the event that the Term of Employment is terminated by the Company without Cause, Employee shall be entitled to receive: (a) any Base Salary and Benefits earned and accrued but unpaid through the date of termination; (b) a lump sum cash payment (or six monthly payments based on the Company's financial status as determined by the CFO or CEO), net of any applicable withholding taxes, in an amount equal to six month's salary at the highest base salary in effect during the twelve months prior to termination plus the Annual Bonus paid to Employee for the last fiscal year prior to termination prorated to the date of termination; (c) continuation of Benefits to the extent allowed under the Company's plans for six months from the date of termination; and (d) notwithstanding any provision to the contrary in any plan or agreement relating to stock options for shares of the Company, immediate vesting of all of Employee's non-vested options for shares of the Company's capital stock ("Accelerated Option Vesting") (collectively, the "Severance Payments"). In the event the Company cannot, pursuant to any of its benefits plans, pay any Benefits under such plan, Employee shall be entitled to a lump sum payment equal to the after-tax value of such Benefits. The parties shall have no further obligation under this Agreement. Employee acknowledges and agrees that payment of Severance Payments pursuant to this Agreement shall be conditioned upon the Company's receipt of a release, in form satisfactory to the Company, of all claims that Employee may have against the Company, its directors, officers, employees and/or agents and the Employee's satisfaction of the requirements of Paragraph 8 below.

7. Early Termination: Resignation by the Employee.

(a) For Good Reason.

(i) Notwithstanding anything to the contrary in Paragraph 1 hereof, the Term of Employment may be terminated by Employee upon notice to the Company for "Good Reason." For purposes of this Agreement, "Good Reason" includes the occurrence of any of the following circumstances, without Employee's express consent: (i) a material adverse change or material diminution in Employee's position, duties, reporting relationships or responsibilities (as reasonably determined by

Employee in his good faith discretion); (ii) a change in the required location of the performance of Employee's duties; (iii) a reduction in either Employee's annual rate of Base Salary or level of participation in any non-discretionary bonus plan for which he is eligible under Paragraph 2(c); (iv) an elimination or reduction of Employee's participation in any benefit plan generally available to executive employees of the Company, unless the Company continues to offer Employee benefits substantially similar to those made available by such plan; or (v) a breach of this Agreement by the Company which is not cured within sixty (60) days of written notice to the Company. Employee's continued employment will not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason; *provided, however*, that Employee will be deemed to have waived his rights pursuant to the circumstances constituting Good Reason set forth in clauses (i) through (v) of the preceding sentence if he has not provided to the Company a notice of termination (described below) within ninety (90) days following his knowledge of the circumstances constituting Good Reason.

(ii) Upon such termination for Good Reason, Employee shall be entitled to receive the Severance Payments as described in Paragraph 6 of this Agreement. In the event the Company cannot, pursuant to any of its benefits plans, pay any Benefits under such plan, Employee shall be entitled to a lump sum payment equal to the after-tax value of such benefits. The parties shall have no further obligation under this Agreement except that Employee shall not be relieved of Employee's obligations under Paragraph 8.

(iii) Any termination of Employee's employment by Employee must be communicated by written notice of termination to the Company in accordance with Paragraph 20 which notice must set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Employee's employment under this Paragraph 7.

(b) Other than for Good Reason. In the event that the Term of Employment is terminated by Employee other than as set forth in Paragraph 7(a) above, Employee shall be entitled to receive any Base Salary and Benefits earned and accrued but unpaid through the date of termination. The parties shall have no further obligation under this Agreement except that Employee shall not be relieved of Employee's obligations under Paragraph 8.

8. Confidentiality and Non-Competition.

(a) Employee acknowledges that Employee has had or shall have unlimited access to Confidential Information (as defined below) and business methods relating to the Company's Business and operations and that the Company would be injured and the goodwill of the Company would be damaged if Employee were to breach the covenants set forth in this Paragraph 8. Employee further acknowledges that the covenants set forth in this Paragraph 8 are reasonable in scope and duration. "Confidential Information" shall include, without limitation: (i) specific business strategies relating to the Company's Business, as its Business is being conducted at the time of any alleged breach of this Paragraph 8; (ii) methodologies of pricing used by the Business; (iii) customer lists; and (iv) all other information reasonably deemed by the Company to be confidential and/or proprietary in nature that Employee knows, or should reasonably know, is confidential and/or proprietary.

(b) During the Term of Employment and thereafter, except as may be required by law or necessary in connection with any dealings with any public agency or authority, Employee shall not disclose, disseminate, divulge, discuss, copy or otherwise use or suffer to be used, in competition with, or in a manner harmful to the interests of, the Company, any written Confidential Information respecting any material aspect of the Company's Business, excepting only use of such data or information as is: (i) at the time disclosed, through no act or failure to act on the part of Employee, generally known or available to the public; (ii) furnished to Employee by a third party as a matter of right and without restriction on disclosure; or (iii) required to be disclosed by court order. Upon termination of the Term of Employment, Employee shall return to the Company or, at the Company's direction, destroy, any and all materials in tangible or electronic form containing Confidential Information belonging to the Company.

(c) During the Term of Employment and for a period of one (1) years thereafter (except in the event this Agreement is terminated by the Company pursuant to Paragraph 6 or this Agreement is terminated by the Employee pursuant to Paragraph 7(a) and Employee has waived his right to collect the Severance Payments), Employee shall not in North America, or in any international market in which the Company is, as of the date of termination, doing business, directly or indirectly, whether as an individual on Employee's own account, or as a shareholder, partner, joint venturer, director, officer, employee, consultant, creditor and/or agent, of any person, firm or organization or otherwise:

(i) own, manage, control or participate in the ownership, management or control of, or be employed or engaged by or otherwise affiliated or associated as a consultant, independent contractor or otherwise with, any other corporation, partnership, proprietorship, firm, association or other business entity or otherwise engage in any business that is engaged in, or otherwise directly competes with, the Business of the Company or any of the Company's Subsidiaries (as defined herein), as such Business is conducted on the date Employee ceases to be employed by the Company, in any capacity, including as a consultant;

(ii) solicit any person who, at the time of termination, is an employee or officer of the Company or any Subsidiary, or a customer of the Business of the Company or any Subsidiary (in its capacity as a customer of the Business) to terminate his, her or its relationship with the Company or the Business (in the case of a customer);

(iii) solicit any supplier of the Company or any Subsidiary (in its capacity as a supplier of the Business), to refuse to do business with the Company or any Subsidiary, or to do business on any less favorable terms than the Supplier's previous terms with the Company or its Subsidiary, as the case may be; or

(iv) engage in disparagement (which shall not include the providing of accurate information without invidious intent) of the Company or any Subsidiary by any means to any person.

(d) The Company will not engage in disparagement of the Employee at any time during employment or after employment.

(e) Notwithstanding anything herein to the contrary, Employee shall be permitted to own shares of any class of capital stock of any publicly held corporation so long as the aggregate holdings of Employee represent less than two percent (2%) of the outstanding shares of such class of capital stock.

9. Change in Control.

(a) If there is a Change in Control (as defined below), Employee shall be entitled to Accelerated Option Vesting.

(b) For purposes of this Agreement, a "Change in Control" will occur: (i) upon the sale or other disposition to a person, entity or group (as defined for purposes of Section 13(d) of the Securities Exchange Act of 1934, as amended) (each, a "Person") of 50% or more of the consolidated assets of the Company taken as a whole; (ii) if any Person becomes the beneficial owner of, or has the right to acquire (by contract, option, warrant, conversion of convertible securities or otherwise), 50% or more of the outstanding equity securities of the Company entitled to vote for the election of directors; and (iii) upon the merger, consolidation or reorganization with another corporation. Notwithstanding anything herein to the contrary, a "Change in Control" does not occur upon an initial public offering of the Company's equity securities pursuant to an effective registration statement under the Securities Act of 1933, as amended, or upon a transaction, merger, consolidation or reorganization in which the Company exchanges or offers to exchange newly issued or treasury shares in an amount less than 50% of the then outstanding equity securities of the Company entitled to vote for the election of directors, for 51% or more of the outstanding equity securities entitled to vote for the election of at least the majority of the directors of a corporation (the "Acquired Corporation"), or for all or substantially all of the assets of the Acquired Corporation.

(c) If all or any portion of the amount payable to Employee under this Agreement, either alone or together with other amounts that Employee is entitled to receive in connection with a Change in Control constitutes "excess parachute payments," within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), or successor provision, that are subject to the excise tax imposed by Section 4999 of the Code (or any similar tax or assessment), the amounts payable to Employee under this Agreement will be increased to the extent necessary to place Employee in the same after-tax position as Employee would have been in had no such excise tax or assessment (including any interest or penalties thereon) been imposed on any such payment paid or payable to Employee under this Agreement or any other payment that Employee may receive as a result of such Change in Control. The determination of the amount of any such tax or assessment and the resulting amount of incremental payment required by this Paragraph 9(c) will be made by the independent accounting firm employed by the Company immediately prior to the applicable Change in Control, within thirty (30) calendar days after the payment of the amount payable to Employee under this Agreement which triggered an incremental payment under this Paragraph 9(c), and such incremental payment will be made within five (5) business days after the determination has been made.

10. Rights and Remedies Upon Breach.

(a) Employee expressly agrees and understands that the remedy at law for any breach by Employee of Paragraph 8 may be inadequate and that the damages flowing from such breach may not be readily susceptible to being measured in monetary terms. Accordingly, it is acknowledged that upon adequate proof of Employee's violation of Paragraph 8, the Company may be entitled, among other remedies, to injunctive relief and may obtain a temporary restraining order restraining any threatened or further breach. Nothing in this Paragraph 10(a) shall be deemed to limit the Company's remedies at law or in equity for any breach by Employee of any of the provisions of this Agreement which may be pursued or availed of by the Company.

(b) In the event any court of competent jurisdiction determines that the specified time period or geographical area set forth in Paragraph 8 is unreasonable, arbitrary or against public policy, then a lesser time period or geographical area that is determined by the court to be reasonable, non-arbitrary and not against public policy may be enforced.

(c) In the event the Company has asserted in a formal legal action that Employee is violating any legally enforceable provision of Paragraph 8 as to which there is a specific time period during which Employee is prohibited from taking certain actions or engaging in certain activities, then, in such event the violation shall toll the running of the time period from the date of the assertion until the violation ceases.

11. Expenses. Employee is authorized to incur reasonable expenses for carrying out and promoting the business of the Company, including expenses for entertainment, travel and similar items, but only in accordance with the policies of the Company, as from time to time adopted.

12. Withholding Taxes. All payments to Employee or his beneficiary shall be subject to withholding on account of federal, state and local taxes as required by law. If any payment hereunder is insufficient to provide the amount of such taxes required to be withheld, the Company may withhold such taxes from any other payment due Employee or his beneficiary. In the event all cash payments due Employee are insufficient to provide the required amount of such withholding taxes, Employee or his beneficiary, within five (5) days after written notice from the Company, shall pay to the Company the amount of such withholding taxes in excess of all cash payments due Employee or his beneficiary.

13. Assignability; Binding Nature. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors, heirs (in the case of Employee) and assigns. No rights or obligations of the Company under this Agreement may be assigned or transferred by the Company, except in connection with a Change in Control where the assignee or transferee agrees, in writing, to assume such rights and obligations of the Company under this Agreement. No obligations of Employee under this Agreement may be assigned or transferred by Employee.

14. Entire Agreement. Except to the extent otherwise provided herein, this Agreement contains the entire understanding and agreement between the parties concerning the subject matter hereof and supersedes any prior agreements, whether written or oral, between the parties concerning the subject matter hereof.

15. Amendment or Waiver. No provision in this Agreement may be amended unless such amendment is agreed to in writing and signed by both Employee and an authorized officer of the Company. No waiver by either party of any breach by the other party of any condition or provision contained in this Agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and signed by the Employee or an authorized officer of the Company, as the case may be.

16. Severability. In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, in whole or in part, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect to the fullest extent permitted by law.

17. Survivorship. The respective rights and obligations of the parties hereunder shall survive any termination of Employee's employment with the Company to the extent necessary to the intended preservation of such rights and obligations as described in this Agreement.

18. Governing Law. This Agreement shall be governed by and construed and interpreted in accordance with the laws of the State of Colorado, without reference to principles of conflict of laws.

19. Arbitration. With the sole exception of the injunctive relief contemplated by Paragraph 10(a), any controversy or claim arising out of any aspect of the relationship of the parties hereto, will be settled by binding arbitration in Denver, Colorado by a panel of three arbitrators in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Judgment upon any arbitration award may be entered in any court having jurisdiction thereof and the parties consent to the jurisdiction of the courts of the State of Colorado for this purpose.

20. Notices. Any notice given to either party shall be in writing and shall be effective when given, and shall in any event be deemed to be given upon receipt, or if earlier, (a) five (5) days after deposit with the U.S. Postal Service or other applicable postal service, if delivered by first class mail, postage prepaid, (b) upon delivery, if delivered by hand, (c) one (1) business day after the business day of deposit with Federal Express or similar overnight courier, freight prepaid or (d) one (1) business day after the business day of facsimile transmission, if delivered by facsimile transmission with copy by first class mail, postage prepaid, and shall be duly addressed to the party concerned at the address indicated below or to such changed address as such party may subsequently give such notice of:

If to the Company, to:
2000 S Colorado Blvd.
Annex Ste. 200
Denver CO 80222

If to Employee, to:
456 Madison St.
Denver CO 80206

21. Headings. The headings of the Paragraphs contained in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this Agreement.

22. Counterparts; Facsimile Signatures. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument. This Agreement may be executed by facsimile signature and the facsimile signature of any party shall constitute and original in all respects.

IN WITNESS WHEREOF, the parties hereto have executed or caused to be executed this instrument on the date first above written.

/s/ John McKowen

/s/ Gary Barber, Chair of the Compensation Committee
Two Rivers Water Company

Exhibit 10.2
Garald Barber Employment Agreement

This EMPLOYMENT AGREEMENT (the "Agreement") is effective as of the 1st day of January 2011 by and between Garald Barber an individual ("Employee"), and Two Rivers Water, LLC, a Colorado limited liability company (the "Company").

WHEREAS, the Company has determined that it is in the best interests of the Company and its stockholders to enter into this Agreement setting forth the rights, obligations and duties of both the Company and the Employee; and

WHEREAS, the Company wishes to assure itself of the services of the Employee for the period hereinafter provided, and the Employee is willing to be employed by the Company for said period, upon the terms and conditions provided in this Agreement.

IN CONSIDERATION of the mutual covenants and promises herein contained, and subject to the terms and conditions herein set forth, Employee and the Company hereby agree as follows:

1. Term of Employment; Duties.

(a) The "Term of Employment" shall commence on the effective date of this Agreement and shall continue for an initial term of one (1) years unless earlier terminated as provided in this Agreement (the "Initial Term"). After the Initial Term, the Term of Employment will automatically renew for successive one (1) year terms unless and until either party delivers notice of termination to the other within thirty (30) days of the expirations of the then current term.

(b) During the Term of Employment, the Company shall employ Employee, and Employee shall work for the Company as President of Two Rivers Water, LLC. In such capacity, Employee shall perform such duties as are traditional and customary to that position and as may be reasonably directed by the Company's Managing Members and officers and board of the parent company, Two Rivers Water Company ("Two Rivers").

(c) During the Term of Employment, except as set forth below, Employee shall devote full time and effort to carrying out Employee's duties for the Company hereunder, shall not engage in any activity which would be inconsistent with such duties or with the objectives of the Business (as defined below), and shall diligently perform Employee's obligations and discharge Employee's duties hereunder; *provided, however*, nothing in this Paragraph shall prevent Employee from devoting time to managing investments, family businesses, participating with charitable organizations and trade groups or other similar activities. The "Business" of the Company is to investigate, acquire, and manage business opportunities for the Company.

2. Compensation. During the Term of Employment, the following compensation and benefits shall be payable and provided to Employee:

(a) Employee shall receive from the Company an annual base salary of \$120,000.00 ("Base Salary"), which shall be payable in accordance with the standard practice of the Company in the payment of salaries of its employees. Employee's Base Salary shall be adjusted in accordance with other executives of the Company and its Subsidiaries.

No less frequently than quarterly, the Base Salary and other compensation of Employee will be reviewed and may be adjusted upward at the discretion of the proper authority or group.

Employee shall be entitled to all granted options pursuant to the conditions of the Two River's 2005 Stock Option Plan and restricted stock units (RSUs) as follows:

| Award Date | Vesting Date | Type (Option/RSU) | Strike Price | No. of Shares |
|--------------|--------------|-------------------|--------------|---------------|
| Oct 13 2010 | Jan 15, 2012 | RSU | n/a | 333,333 |
| Oct 13 2010 | Jan 15, 2013 | RSU | n/a | 333,333 |
| Oct 13, 2010 | Jan 15, 2014 | RSU | n/a | 333,334 |

Note: Refer to the Stock Option or Restrictive Stock Unit Agreement for details ("Stock Agreement"). If there are any conflicts between this Agreement and the Stock Agreement, the Stock Agreement terms and conditions prevail.

(b) Employee will be paid \$150,000 as a signing bonus. This signing bonus is strictly contingent on the successful completion of the Boenning & Scattergood offering and Employee agrees to remit commissions earned on the Orlando purchase to the Company.

(c) The Company shall provide Employee with such medical, hospitalization, insurance, including but not limited to disability insurance, pension plan, profit sharing and employee benefits and such other similar employment privileges and benefits ("Benefits") as are afforded generally from time to time to other executive employees of the Company, and paid vacation each year in

accordance to the Company's policy and Employee Handbook.

(d) Employee shall also be eligible to participate in the Company's Management Incentive Plan.

(e) At the sole discretion of the Board, Employee shall receive in addition to his Base Salary annual incentive compensation (an "Annual Bonus") in an amount and in a form to be determined by the Board.

(f) Employee shall be entitled to receive prompt reimbursement for all pre- approved reasonable employment-related expenses incurred by Employee, upon the receipt by the Company of an accounting in accordance with the practices, policies and procedures applicable to other executive employees of the Company.

3. Early Termination: Death. Notwithstanding anything to the contrary in Paragraph 1 hereof, if Employee dies during the Term of Employment, the Term of Employment shall terminate. Upon such termination, Employee's estate or beneficiaries shall be entitled to receive any Base Salary and Benefits earned and accrued but unpaid through the date on which his death occurs. Employee's estate shall receive Employee's Annual Bonus (if any), prorated for the number of months during the fiscal year during which Employee was paid his Base Salary ("Prorated Annual Bonus"). The Prorated Annual Bonus shall be calculated and paid in the ordinary course after completion of the fiscal year. In addition, Employee's family ("Family") shall continue to receive health insurance coverage ("Family Health Insurance") during such one (1) year period, to the extent permitted by the Company's health plan contract(s), or if not permitted, as purchased by the Company at no cost to the Family. The parties shall have no further obligation under this Agreement.

4. Early Termination: Disability. Notwithstanding anything to the contrary in Paragraph 1 hereof, if Employee has at any time been unable, by virtue of illness or other physical or mental disability, to perform substantially and continuously the duties assigned to Employee under this Agreement for a period of ninety (90) consecutive days or one hundred twenty (120) calendar days out of any period of one hundred eighty (180) consecutive calendar days during the Term of Employment and the Board has received a medical opinion from a physician reasonably acceptable to both the Company and the Employee that Employee remains disabled after said period ("Disability"), then the Company shall have the right to terminate the Term of Employment upon notice to Employee. Upon such termination, Employee shall be entitled to receive any Base Salary and Benefits earned and accrued but unpaid through the date of termination, including, without limitation, the additional disability insurance described in Paragraph

2(b) hereof. In addition, the Employee shall have the right to receive a Prorated Annual Bonus to the date of termination. Employee and Family shall continue to receive health insurance coverage during a six month period following the date of termination, to the extent permitted by the Company's health plan contract(s), or if not permitted, as purchased by the Company at no cost to the Family. The parties shall have no further obligation under this Agreement except that Employee shall not be relieved of Employee's obligations under Paragraph 8.

5. Early Termination: Termination by the Company for Cause. Notwithstanding anything to the contrary in Paragraph 1 hereof, the Term of Employment may be terminated by the Company upon notice to Employee for "Cause." The term "Cause" shall mean Employee's: (a) unsatisfactory job performance as determined by a seventy five percent (75%) or greater vote of the Company's Board of Directors of which the Employee's performance is not corrected to the satisfaction of the Board within 30 calendar days; (b) final, unappealable conviction of a felony involving fraud, dishonesty or moral turpitude; (c) willful or intentional violation of Paragraph 8 of this Agreement which breach is not cured within thirty (30) days after Employee's receipt of written notice from the Company; (d) willful or intentional material breach of this Agreement which breach is not cured within thirty (30) days after Employee's receipt of written notice from the Company. Upon such termination, Employee shall be entitled to receive any Base Salary and Benefits earned and accrued but unpaid through the date of termination and a Prorated Annual Bonus to the date of termination. The parties shall have no further obligation under this Agreement except that Employee shall not be relieved of Employee's obligations under Paragraph 8.

6. Early Termination: Termination by the Company without Cause. Early termination by the Company without Cause includes any termination instituted by the Company not covered in Section 5. In the event that the Term of Employment is terminated by the Company without Cause, Employee shall be entitled to receive: (a) any Base Salary and Benefits earned and accrued but unpaid through the date of termination; (b) a lump sum cash payment (or six monthly payments based on the Company's financial status as determined by the CFO or CEO), net of any applicable withholding taxes, in an amount equal to six month's salary at the highest base salary in effect during the twelve months prior to termination plus the Annual Bonus paid to Employee for the last fiscal year prior to termination prorated to the date of termination; (c) continuation of Benefits to the extent allowed under the Company's plans for six months from the date of termination; and (d) notwithstanding any provision to the contrary in any plan or agreement relating to stock options for shares of the Company, immediate vesting of all of Employee's non-vested options for shares of the Company's capital stock ("Accelerated Option Vesting") (collectively, the "Severance Payments"). In the event the Company cannot, pursuant to any of its benefits plans, pay any Benefits under such plan, Employee shall be entitled to a lump sum payment equal to the after-tax value of such Benefits. The parties shall have no further obligation under this Agreement. Employee acknowledges and agrees that payment of Severance Payments pursuant to this Agreement shall be conditioned upon the Company's receipt of a release, in form satisfactory to the Company, of all claims that Employee may have against the Company, its directors, officers, employees and/or agents and the Employee's satisfaction of the requirements of Paragraph 8 below.

7. Early Termination: Resignation by the Employee.

(a) For Good Reason.

(i) Notwithstanding anything to the contrary in Paragraph 1 hereof, the Term of Employment may be terminated by Employee upon notice to the Company for "Good Reason." For purposes of this Agreement, "Good Reason" includes the occurrence of any of the following circumstances, without Employee's express consent: (i) a material adverse change or material diminution in Employee's position, duties, reporting relationships or responsibilities (as reasonably determined by Employee in his good faith discretion); (ii) a change in the required location of the performance of Employee's duties; (iii) a reduction in either Employee's annual rate of Base Salary or level of participation in any non-discretionary bonus plan for which he is eligible under Paragraph 2(c); (iv) an elimination or reduction of Employee's participation in any benefit plan generally available to executive employees of the Company, unless the Company continues to offer Employee benefits substantially similar to those made available by such plan; or (v) a breach of this Agreement by the Company which is not cured within sixty (60) days of written notice to the Company. Employee's continued employment will not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason; *provided, however*, that Employee will be deemed to have waived his rights pursuant to the circumstances constituting Good Reason set forth in clauses (i) through (v) of the preceding sentence if he has not provided to the Company a notice of termination (described below) within ninety (90) days following his knowledge of the circumstances constituting Good Reason.

(ii) Upon such termination for Good Reason, Employee shall be entitled to receive the Severance Payments as described in Paragraph 6 of this Agreement. In the event the Company cannot, pursuant to any of its benefits plans, pay any Benefits under such plan, Employee shall be entitled to a lump sum payment equal to the after-tax value of such benefits. The parties shall have no further obligation under this Agreement except that Employee shall not be relieved of Employee's obligations under Paragraph 8.

(iii) Any termination of Employee's employment by Employee must be communicated by written notice of termination to the Company in accordance with Paragraph 20 which notice must set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Employee's employment under this Paragraph 7.

(b) Other than for Good Reason. In the event that the Term of Employment is terminated by Employee other than as set forth in Paragraph 7(a) above, Employee shall be entitled to receive any Base Salary and Benefits earned and accrued but unpaid through the date of termination. The parties shall have no further obligation under this Agreement except that Employee shall not be relieved of Employee's obligations under Paragraph 8.

8. Confidentiality and Non-Competition.

(a) Employee acknowledges that Employee has had or shall have unlimited access to Confidential Information (as defined below) and business methods relating to the Company's Business and operations and that the Company would be injured and the goodwill of the Company would be damaged if Employee were to breach the covenants set forth in this Paragraph 8. Employee further acknowledges that the covenants set forth in this Paragraph 8 are reasonable in scope and duration. "Confidential Information" shall include, without limitation: (i) specific business strategies relating to the Company's Business, as its Business is being conducted at the time of any alleged breach of this Paragraph 8; (ii) methodologies of pricing used by the Business; (iii) customer lists; and (iv) all other information reasonably deemed by the Company to be confidential and/or proprietary in nature that Employee knows, or should reasonably know, is confidential and/or proprietary.

(b) During the Term of Employment and thereafter, except as may be required by law or necessary in connection with any dealings with any public agency or authority, Employee shall not disclose, disseminate, divulge, discuss, copy or otherwise use or suffer to be used, in competition with, or in a manner harmful to the interests of, the Company, any written Confidential Information respecting any material aspect of the Company's Business, excepting only use of such data or information as is: (i) at the time disclosed, through no act or failure to act on the part of Employee, generally known or available to the public; (ii) furnished to Employee by a third party as a matter of right and without restriction on disclosure; or (iii) required to be disclosed by court order. Upon termination of the Term of Employment, Employee shall return to the Company or, at the Company's direction, destroy, any and all materials in tangible or electronic form containing Confidential Information belonging to the Company.

(c) During the Term of Employment and for a period of one (1) years thereafter (except in the event this Agreement is terminated by the Company pursuant to Paragraph 6 or this Agreement is terminated by the Employee pursuant to Paragraph 7(a) and Employee has waived his right to collect the Severance Payments), Employee shall not in North America, or in any international market in which the Company is, as of the date of termination, doing business, directly or indirectly, whether as an individual on Employee's own account, or as a shareholder, partner, joint venturer, director, officer, employee, consultant, creditor and/or agent, of any person, firm or organization or otherwise:

(i) own, manage, control or participate in the ownership, management or control of, or be employed or engaged by or otherwise affiliated or associated as a consultant, independent contractor or otherwise with, any other corporation, partnership, proprietorship, firm, association or other business entity or otherwise engage in any business that is engaged in, or otherwise directly competes with, the Business of the Company or any of the Company's Subsidiaries (as defined herein), as such Business is conducted on the date Employee ceases to be employed by the Company, in any capacity, including as a consultant;

(ii) solicit any person who, at the time of termination, is an employee or officer of the Company or any Subsidiary, or a customer of the Business of the Company or any Subsidiary (in its capacity as a customer of the Business) to terminate his, her or its relationship with the Company or the Business (in the case of a customer);

(iii) solicit any supplier of the Company or any Subsidiary (in its capacity as a supplier of the Business), to refuse to do business with the Company or any Subsidiary, or to do business on any less favorable terms than the Supplier's previous terms with the Company or its Subsidiary, as the case may be; or

(iv) engage in disparagement (which shall not include the providing of accurate information without invidious intent) of the Company or any Subsidiary by any means to any person.

(d) The Company will not engage in disparagement of the Employee at any time during employment or after employment.

(e) Notwithstanding anything herein to the contrary, Employee shall be permitted to own shares of any class of capital stock of any publicly held corporation so long as the aggregate holdings of Employee represent less than two percent (2%) of the outstanding shares of such class of capital stock.

9. Change in Control.

(a) If there is a Change in Control (as defined below), Employee shall be entitled to Accelerated Option Vesting.

(b) For purposes of this Agreement, a "Change in Control" will occur: (i) upon the sale or other disposition to a person, entity or group (as defined for purposes of Section 13(d) of the Securities Exchange Act of 1934, as amended) (each, a "Person") of 50% or more of the consolidated assets of the Company taken as a whole; (ii) if any Person becomes the beneficial owner of, or has the right to acquire (by contract, option, warrant, conversion of convertible securities or otherwise), 50% or more of the outstanding equity securities of the Company entitled to vote for the election of directors; and (iii) upon the merger, consolidation or reorganization with another corporation. Notwithstanding anything herein to the contrary, a "Change in Control" does not occur upon an initial public offering of the Company's equity securities pursuant to an effective registration statement under the Securities Act of 1933, as amended, or upon a transaction, merger, consolidation or reorganization in which the Company exchanges or offers to exchange newly issued or treasury shares in an amount less than 50% of the then outstanding equity securities of the Company entitled to vote for the election of directors, for 51% or more of the outstanding equity securities entitled to vote for the election of at least the majority of the directors of a corporation (the "Acquired Corporation"), or for all or substantially all of the assets of the Acquired Corporation.

(c) If all or any portion of the amount payable to Employee under this Agreement, either alone or together with other amounts that Employee is entitled to receive in connection with a Change in Control constitutes "excess parachute payments," within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), or successor provision, that are subject to the excise tax imposed by Section 4999 of the Code (or any similar tax or assessment), the amounts payable to Employee under this Agreement will be increased to the extent necessary to place Employee in the same after-tax position as Employee would have been in had no such excise tax or assessment (including any interest or penalties thereon) been imposed on any such payment paid or payable to Employee under this Agreement or any other payment that Employee may receive as a result of such Change in Control. The determination of the amount of any such tax or assessment and the resulting amount of incremental payment required by this Paragraph 9(c) will be made by the independent accounting firm employed by the Company immediately prior to the applicable Change in Control, within thirty (30) calendar days after the payment of the amount payable to Employee under this Agreement which triggered an incremental payment under this Paragraph 9(c), and such incremental payment will be made within five (5) business days after the determination has been made.

10. Rights and Remedies Upon Breach.

(a) Employee expressly agrees and understands that the remedy at law for any breach by Employee of Paragraph 8 may be inadequate and that the damages flowing from such breach may not be readily susceptible to being measured in monetary terms. Accordingly, it is acknowledged that upon adequate proof of Employee's violation of Paragraph 8, the Company may be entitled, among other remedies, to injunctive relief and may obtain a temporary restraining order restraining any threatened or further breach. Nothing in this Paragraph 10(a) shall be deemed to limit the Company's remedies at law or in equity for any breach by Employee of any of the provisions of this Agreement which may be pursued or availed of by the Company.

(b) In the event any court of competent jurisdiction determines that the specified time period or geographical area set forth in Paragraph 8 is unreasonable, arbitrary or against public policy, then a lesser time period or geographical area that is determined by the court to be reasonable, non-arbitrary and not against public policy may be enforced.

(c) In the event the Company has asserted in a formal legal action that Employee is violating any legally enforceable provision of Paragraph 8 as to which there is a specific time period during which Employee is prohibited from taking certain actions or engaging in certain activities, then, in such event the violation shall toll the running of the time period from the date of the assertion until the violation ceases.

11. Expenses. Employee is authorized to incur reasonable expenses for carrying out and promoting the business of the Company, including expenses for entertainment, travel and similar items, but only in accordance with the policies of the Company, as from time to time adopted.

12. Withholding Taxes. All payments to Employee or his beneficiary shall be subject to withholding on account of federal, state and local taxes as required by law. If any payment hereunder is insufficient to provide the amount of such taxes required to be withheld, the Company may withhold such taxes from any other payment due Employee or his beneficiary. In the event all cash payments due Employee are insufficient to provide the required amount of such withholding taxes, Employee or his beneficiary, within five (5) days after written notice from the Company, shall pay to the Company the amount of such withholding taxes in excess of all cash payments due Employee or his beneficiary.

13. Assignability; Binding Nature. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors, heirs (in the case of Employee) and assigns. No rights or obligations of the Company under this Agreement may be assigned or transferred by the Company, except in connection with a Change in Control where the assignee or transferee agrees, in writing, to assume such rights and obligations of the Company under this Agreement. No obligations of Employee under this Agreement may be assigned or transferred by Employee.

14. Entire Agreement. Except to the extent otherwise provided herein, this Agreement contains the entire understanding and agreement between the parties concerning the subject matter hereof and supersedes any prior agreements, whether written or oral, between the parties concerning the subject matter hereof.

15. Amendment or Waiver. No provision in this Agreement may be amended unless such amendment is agreed to in writing and signed by both Employee and an authorized officer of the Company. No waiver by either party of any breach by the other party of any condition or provision contained in this Agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and signed by the Employee or an authorized officer of the Company, as the case may be.

16. Severability. In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, in whole or in part, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect to the fullest extent permitted by law.

17. Survivorship. The respective rights and obligations of the parties hereunder shall survive any termination of Employee's employment with the Company to the extent necessary to the intended preservation of such rights and obligations as described in this Agreement.

18. Governing Law. This Agreement shall be governed by and construed and interpreted in accordance with the laws of the State of Colorado, without reference to principles of conflict of laws.

19. Arbitration. With the sole exception of the injunctive relief contemplated by Paragraph 10(a), any controversy or claim arising out of any aspect of the relationship of the parties hereto, will be settled by binding arbitration in Denver, Colorado by a panel of three arbitrators in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Judgment upon any arbitration award may be entered in any court having jurisdiction thereof and the parties consent to the jurisdiction of the courts of the State of Colorado for this purpose.

20. Notices. Any notice given to either party shall be in writing and shall be effective when given, and shall in any event be deemed to be given upon receipt, or if earlier, (a) five (5) days after deposit with the U.S. Postal Service or other applicable postal service, if delivered by first class mail, postage prepaid, (b) upon delivery, if delivered by hand, (c) one (1) business day after the business day of deposit with Federal Express or similar overnight courier, freight prepaid or (d) one (1) business day after the business day of facsimile transmission, if delivered by facsimile transmission with copy by first class mail, postage prepaid, and shall be duly addressed to the party concerned at the address indicated below or to such changed address as such party may subsequently give such notice of:

If to the Company, to:
2000 S Colorado Blvd.
Annex Ste. 200
Denver CO 80222

If to Employee, to:
9040 Strand Way
Colorado Springs CO 80920

21. Headings. The headings of the Paragraphs contained in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this Agreement.

22. Counterparts; Facsimile Signatures. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument. This Agreement may be executed by facsimile signature and the facsimile signature of any party shall constitute and original in all respects.

IN WITNESS WHEREOF, the parties hereto have executed or caused to be executed this instrument on the date first above written.

/s/ Garald Barber

/s/ Wayne Harding, CFO
Two Rivers Water Company

Exhibit 10.3
Wayne Harding Employment Agreement

This EMPLOYMENT AGREEMENT (the "Agreement") is effective as of the 1st day of January 2011 by and between Wayne Harding an individual ("Employee"), and Two Rivers Water Company, a Colorado corporation (the "Company").

WHEREAS, the Company has determined that it is in the best interests of the Company and its stockholders to enter into this Agreement setting forth the rights, obligations and duties of both the Company and the Employee; and

WHEREAS, the Company wishes to assure itself of the services of the Employee for the period hereinafter provided, and the Employee is willing to be employed by the Company for said period, upon the terms and conditions provided in this Agreement.

IN CONSIDERATION of the mutual covenants and promises herein contained, and subject to the terms and conditions herein set forth, Employee and the Company hereby agree as follows:

1. Term of Employment; Duties.

(a) The "Term of Employment" shall commence on the effective date of this Agreement and shall continue for an initial term of one (1) years unless earlier terminated as provided in this Agreement (the "Initial Term"). After the Initial Term, the Term of Employment will automatically renew for successive one (1) year terms unless and until either party delivers notice of termination to the other within thirty (30) days of the expirations of the then current term.

(b) During the Term of Employment, the Company shall employ Employee, and Employee shall work for the Company as Chief Financial Officer. In such capacity, Employee shall perform such duties as are traditional and customary to that position and as may be reasonably directed by the Company's Board of Directors and CEO.

(c) During the Term of Employment, except as set forth below, Employee shall devote full time and effort to carrying out Employee's duties for the Company hereunder, shall not engage in any activity which would be inconsistent with such duties or with the objectives of the Business (as defined below), and shall diligently perform Employee's obligations and discharge Employee's duties hereunder; *provided, however*, nothing in this Paragraph shall prevent Employee from devoting time to managing investments, family businesses, participating with charitable organizations and trade groups or other similar activities. The "Business" of the Company is to investigate, acquire, and manage business opportunities for the Company.

2. Compensation. During the Term of Employment, the following compensation and benefits shall be payable and provided to Employee:

(a) Employee shall receive from the Company an annual base salary of \$120,000.00 ("Base Salary"), which shall be payable in accordance with the standard practice of the Company in the payment of salaries of its employees. Employee's Base Salary shall be adjusted in accordance with other executives of the Company and its Subsidiaries.

No less frequently than quarterly, the Base Salary and other compensation of Employee will be reviewed and may be adjusted upward at the discretion of the proper authority or group.

Employee shall be entitled to all granted options pursuant to the conditions of the Company's 2005 Stock Option Plan and restricted stock units (RSUs) as follows:

| Award Date | Vesting Date | Type (Option/RSU) | Strike Price | No. of Shares |
|--------------|--------------|-------------------|--------------|---------------|
| Oct 13 2010 | Jan 15, 2011 | RSU | n/a | 200,000 |
| Oct 13 2010 | Jan 15, 2012 | RSU | n/a | 166,666 |
| Oct 13, 2010 | Jan 15, 2013 | RSU | n/a | 166,666 |
| Oct 13, 2010 | Jan 15, 2014 | RSU | n/a | 166,667 |

Note: Refer to the Stock Option or Restrictive Stock Unit Agreement for details ("Stock Agreement"). If there are any conflicts between this Agreement and the Stock Agreement, the Stock Agreement terms and conditions prevail.

(b) The Company shall provide Employee with such medical, hospitalization, insurance, including but not limited to disability insurance, pension plan, profit sharing and employee benefits and such other similar employment privileges and benefits ("Benefits") as are afforded generally from time to time to other executive employees of the Company, and paid vacation each year in accordance to the Company's policy and Employee Handbook.

(c) Employee shall also be eligible to participate in the Company's Management Incentive Plan.

(d) At the sole discretion of the Board, Employee shall receive in addition to his Base Salary annual incentive compensation (an "Annual Bonus") in an amount and in a form to be determined by the Board.

(e) Employee shall be entitled to receive prompt reimbursement for all pre- approved reasonable employment-related expenses incurred by Employee, upon the receipt by the Company of an accounting in accordance with the practices, policies and procedures applicable to other executive employees of the Company.

3. Early Termination: Death. Notwithstanding anything to the contrary in Paragraph 1 hereof, if Employee dies during the Term of Employment, the Term of Employment shall terminate. Upon such termination, Employee's estate or beneficiaries shall be entitled to receive any Base Salary and Benefits earned and accrued but unpaid through the date on which his death occurs. Employee's estate shall receive Employee's Annual Bonus (if any), prorated for the number of months during the fiscal year during which Employee was paid his Base Salary ("Prorated Annual Bonus"). The Prorated Annual Bonus shall be calculated and paid in the ordinary course after completion of the fiscal year. In addition, Employee's family ("Family") shall continue to receive health insurance coverage ("Family Health Insurance") during such one (1) year period, to the extent permitted by the Company's health plan contract(s), or if not permitted, as purchased by the Company at no cost to the Family. The parties shall have no further obligation under this Agreement.

4. Early Termination: Disability. Notwithstanding anything to the contrary in Paragraph 1 hereof, if Employee has at any time been unable, by virtue of illness or other physical or mental disability, to perform substantially and continuously the duties assigned to Employee under this Agreement for a period of ninety (90) consecutive days or one hundred twenty (120) calendar days out of any period of one hundred eighty (180) consecutive calendar days during the Term of Employment and the Board has received a medical opinion from a physician reasonably acceptable to both the Company and the Employee that Employee remains disabled after said period ("Disability"), then the Company shall have the right to terminate the Term of Employment upon notice to Employee. Upon such termination, Employee shall be entitled to receive any Base Salary and Benefits earned and accrued but unpaid through the date of termination, including, without limitation, the additional disability insurance described in Paragraph

2(b) hereof. In addition, the Employee shall have the right to receive a Prorated Annual Bonus to the date of termination. Employee and Family shall continue to receive health insurance coverage during a six month period following the date of termination, to the extent permitted by the Company's health plan contract(s), or if not permitted, as purchased by the Company at no cost to the Family. The parties shall have no further obligation under this Agreement except that Employee shall not be relieved of Employee's obligations under Paragraph 8.

5. Early Termination: Termination by the Company for Cause. Notwithstanding anything to the contrary in Paragraph 1 hereof, the Term of Employment may be terminated by the Company upon notice to Employee for "Cause." The term "Cause" shall mean Employee's: (a) unsatisfactory job performance as determined by a seventy five percent (75%) or greater vote of the Company's Board of Directors of which the Employee's performance is not corrected to the satisfaction of the Board within 30 calendar days; (b) final, unappealable conviction of a felony involving fraud, dishonesty or moral turpitude; (c) willful or intentional violation of Paragraph 8 of this Agreement which breach is not cured within thirty (30) days after Employee's receipt of written notice from the Company; (d) willful or intentional material breach of this Agreement which breach is not cured within thirty (30) days after Employee's receipt of written notice from the Company. Upon such termination, Employee shall be entitled to receive any Base Salary and Benefits earned and accrued but unpaid through the date of termination and a Prorated Annual Bonus to the date of termination. The parties shall have no further obligation under this Agreement except that Employee shall not be relieved of Employee's obligations under Paragraph 8.

6. Early Termination: Termination by the Company without Cause. Early termination by the Company without Cause includes any termination instituted by the Company not covered in Section 5. In the event that the Term of Employment is terminated by the Company without Cause, Employee shall be entitled to receive: (a) any Base Salary and Benefits earned and accrued but unpaid through the date of termination; (b) a lump sum cash payment (or six monthly payments based on the Company's financial status as determined by the CFO or CEO), net of any applicable withholding taxes, in an amount equal to six month's salary at the highest base salary in effect during the twelve months prior to termination plus the Annual Bonus paid to Employee for the last fiscal year prior to termination prorated to the date of termination; (c) continuation of Benefits to the extent allowed under the Company's plans for six months from the date of termination; and (d) notwithstanding any provision to the contrary in any plan or agreement relating to stock options for shares of the Company, immediate vesting of all of Employee's non-vested options for shares of the Company's capital stock ("Accelerated Option Vesting") (collectively, the "Severance Payments"). In the event the Company cannot, pursuant to any of its benefits plans, pay any Benefits under such plan, Employee shall be entitled to a lump sum payment equal to the after-tax value of such Benefits. The parties shall have no further obligation under this Agreement. Employee acknowledges and agrees that payment of Severance Payments pursuant to this Agreement shall be conditioned upon the Company's receipt of a release, in form satisfactory to the Company, of all claims that Employee may have against the Company, its directors, officers, employees and/or agents and the Employee's satisfaction of the requirements of Paragraph 8 below.

7. Early Termination: Resignation by the Employee.

(a) For Good Reason.

(i) Notwithstanding anything to the contrary in Paragraph 1 hereof, the Term of Employment may be terminated by Employee upon notice to the Company for "Good Reason." For purposes of this Agreement, "Good Reason" includes the occurrence of any of the following circumstances, without Employee's express consent: (i) a material adverse change or material diminution in Employee's position, duties, reporting relationships or responsibilities (as reasonably determined by

Employee in his good faith discretion); (ii) a change in the required location of the performance of Employee's duties; (iii) a reduction in either Employee's annual rate of Base Salary or level of participation in any non-discretionary bonus plan for which he is eligible under Paragraph 2(c); (iv) an elimination or reduction of Employee's participation in any benefit plan generally available to executive employees of the Company, unless the Company continues to offer Employee benefits substantially similar to those made available by such plan; or (v) a breach of this Agreement by the Company which is not cured within sixty (60) days of written notice to the Company. Employee's continued employment will not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason; *provided, however*, that Employee will be deemed to have waived his rights pursuant to the circumstances constituting Good Reason set forth in clauses (i) through (v) of the preceding sentence if he has not provided to the Company a notice of termination (described below) within ninety (90) days following his knowledge of the circumstances constituting Good Reason.

(ii) Upon such termination for Good Reason, Employee shall be entitled to receive the Severance Payments as described in Paragraph 6 of this Agreement. In the event the Company cannot, pursuant to any of its benefits plans, pay any Benefits under such plan, Employee shall be entitled to a lump sum payment equal to the after-tax value of such benefits. The parties shall have no further obligation under this Agreement except that Employee shall not be relieved of Employee's obligations under Paragraph 8.

(iii) Any termination of Employee's employment by Employee must be communicated by written notice of termination to the Company in accordance with Paragraph 20 which notice must set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Employee's employment under this Paragraph 7.

(b) Other than for Good Reason. In the event that the Term of Employment is terminated by Employee other than as set forth in Paragraph 7(a) above, Employee shall be entitled to receive any Base Salary and Benefits earned and accrued but unpaid through the date of termination. The parties shall have no further obligation under this Agreement except that Employee shall not be relieved of Employee's obligations under Paragraph 8.

8. Confidentiality and Non-Competition.

(a) Employee acknowledges that Employee has had or shall have unlimited access to Confidential Information (as defined below) and business methods relating to the Company's Business and operations and that the Company would be injured and the goodwill of the Company would be damaged if Employee were to breach the covenants set forth in this Paragraph 8. Employee further acknowledges that the covenants set forth in this Paragraph 8 are reasonable in scope and duration. "Confidential Information" shall include, without limitation: (i) specific business strategies relating to the Company's Business, as its Business is being conducted at the time of any alleged breach of this Paragraph 8; (ii) methodologies of pricing used by the Business; (iii) customer lists; and (iv) all other information reasonably deemed by the Company to be confidential and/or proprietary in nature that Employee knows, or should reasonably know, is confidential and/or proprietary.

(b) During the Term of Employment and thereafter, except as may be required by law or necessary in connection with any dealings with any public agency or authority, Employee shall not disclose, disseminate, divulge, discuss, copy or otherwise use or suffer to be used, in competition with, or in a manner harmful to the interests of, the Company, any written Confidential Information respecting any material aspect of the Company's Business, excepting only use of such data or information as is: (i) at the time disclosed, through no act or failure to act on the part of Employee, generally known or available to the public; (ii) furnished to Employee by a third party as a matter of right and without restriction on disclosure; or (iii) required to be disclosed by court order. Upon termination of the Term of Employment, Employee shall return to the Company or, at the Company's direction, destroy, any and all materials in tangible or electronic form containing Confidential Information belonging to the Company.

(c) During the Term of Employment and for a period of one (1) years thereafter (except in the event this Agreement is terminated by the Company pursuant to Paragraph 6 or this Agreement is terminated by the Employee pursuant to Paragraph 7(a) and Employee has waived his right to collect the Severance Payments), Employee shall not in North America, or in any international market in which the Company is, as of the date of termination, doing business, directly or indirectly, whether as an individual on Employee's own account, or as a shareholder, partner, joint venturer, director, officer, employee, consultant, creditor and/or agent, of any person, firm or organization or otherwise:

(i) own, manage, control or participate in the ownership, management or control of, or be employed or engaged by or otherwise affiliated or associated as a consultant, independent contractor or otherwise with, any other corporation, partnership, proprietorship, firm, association or other business entity or otherwise engage in any business that is engaged in, or otherwise directly competes with, the Business of the Company or any of the Company's Subsidiaries (as defined herein), as such Business is conducted on the date Employee ceases to be employed by the Company, in any capacity, including as a consultant;

(ii) solicit any person who, at the time of termination, is an employee or officer of the Company or any Subsidiary, or a customer of the Business of the Company or any Subsidiary (in its capacity as a customer of the Business) to terminate his, her or its relationship with the Company or the Business (in the case of a customer);

(iii) solicit any supplier of the Company or any Subsidiary (in its capacity as a supplier of the Business), to refuse to do business with the Company or any Subsidiary, or to do business on any less favorable terms than the Supplier's previous terms with the Company or its Subsidiary, as the case may be; or

(iv) engage in disparagement (which shall not include the providing of accurate information without invidious intent) of the Company or any Subsidiary by any means to any person.

(d) The Company will not engage in disparagement of the Employee at any time during employment or after employment.

(e) Notwithstanding anything herein to the contrary, Employee shall be permitted to own shares of any class of capital stock of any publicly held corporation so long as the aggregate holdings of Employee represent less than two percent (2%) of the outstanding shares of such class of capital stock.

9. Change in Control.

(a) If there is a Change in Control (as defined below), Employee shall be entitled to Accelerated Option Vesting.

(b) For purposes of this Agreement, a "Change in Control" will occur: (i) upon the sale or other disposition to a person, entity or group (as defined for purposes of Section 13(d) of the Securities Exchange Act of 1934, as amended) (each, a "Person") of 50% or more of the consolidated assets of the Company taken as a whole; (ii) if any Person becomes the beneficial owner of, or has the right to acquire (by contract, option, warrant, conversion of convertible securities or otherwise), 50% or more of the outstanding equity securities of the Company entitled to vote for the election of directors; and (iii) upon the merger, consolidation or reorganization with another corporation. Notwithstanding anything herein to the contrary, a "Change in Control" does not occur upon an initial public offering of the Company's equity securities pursuant to an effective registration statement under the Securities Act of 1933, as amended, or upon a transaction, merger, consolidation or reorganization in which the Company exchanges or offers to exchange newly issued or treasury shares in an amount less than 50% of the then outstanding equity securities of the Company entitled to vote for the election of directors, for 51% or more of the outstanding equity securities entitled to vote for the election of at least the majority of the directors of a corporation (the "Acquired Corporation"), or for all or substantially all of the assets of the Acquired Corporation.

(c) If all or any portion of the amount payable to Employee under this Agreement, either alone or together with other amounts that Employee is entitled to receive in connection with a Change in Control constitutes "excess parachute payments," within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), or successor provision, that are subject to the excise tax imposed by Section 4999 of the Code (or any similar tax or assessment), the amounts payable to Employee under this Agreement will be increased to the extent necessary to place Employee in the same after-tax position as Employee would have been in had no such excise tax or assessment (including any interest or penalties thereon) been imposed on any such payment paid or payable to Employee under this Agreement or any other payment that Employee may receive as a result of such Change in Control. The determination of the amount of any such tax or assessment and the resulting amount of incremental payment required by this Paragraph 9(c) will be made by the independent accounting firm employed by the Company immediately prior to the applicable Change in Control, within thirty (30) calendar days after the payment of the amount payable to Employee under this Agreement which triggered an incremental payment under this Paragraph 9(c), and such incremental payment will be made within five (5) business days after the determination has been made.

10. Rights and Remedies Upon Breach.

(a) Employee expressly agrees and understands that the remedy at law for any breach by Employee of Paragraph 8 may be inadequate and that the damages flowing from such breach may not be readily susceptible to being measured in monetary terms. Accordingly, it is acknowledged that upon adequate proof of Employee's violation of Paragraph 8, the Company may be entitled, among other remedies, to injunctive relief and may obtain a temporary restraining order restraining any threatened or further breach. Nothing in this Paragraph 10(a) shall be deemed to limit the Company's remedies at law or in equity for any breach by Employee of any of the provisions of this Agreement which may be pursued or availed of by the Company.

(b) In the event any court of competent jurisdiction determines that the specified time period or geographical area set forth in Paragraph 8 is unreasonable, arbitrary or against public policy, then a lesser time period or geographical area that is determined by the court to be reasonable, non-arbitrary and not against public policy may be enforced.

(c) In the event the Company has asserted in a formal legal action that Employee is violating any legally enforceable provision of Paragraph 8 as to which there is a specific time period during which Employee is prohibited from taking certain actions or engaging in certain activities, then, in such event the violation shall toll the running of the time period from the date of the assertion until the violation ceases.

11. Expenses. Employee is authorized to incur reasonable expenses for carrying out and promoting the business of the Company, including expenses for entertainment, travel and similar items, but only in accordance with the policies of the Company, as from time to time adopted.

12. Withholding Taxes. All payments to Employee or his beneficiary shall be subject to withholding on account of federal, state and local taxes as required by law. If any payment hereunder is insufficient to provide the amount of such taxes required to be withheld, the Company may withhold such taxes from any other payment due Employee or his beneficiary. In the event all cash payments due Employee are insufficient to provide the required amount of such withholding taxes, Employee or his beneficiary, within five (5) days after written notice from the Company, shall pay to the Company the amount of such withholding taxes in excess

of all cash payments due Employee or his beneficiary.

13. Assignability; Binding Nature. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors, heirs (in the case of Employee) and assigns. No rights or obligations of the Company under this Agreement may be assigned or transferred by the Company, except in connection with a Change in Control where the assignee or transferee agrees, in writing, to assume such rights and obligations of the Company under this Agreement. No obligations of Employee under this Agreement may be assigned or transferred by Employee.

14. Entire Agreement. Except to the extent otherwise provided herein, this Agreement contains the entire understanding and agreement between the parties concerning the subject matter hereof and supersedes any prior agreements, whether written or oral, between the parties concerning the subject matter hereof.

15. Amendment or Waiver. No provision in this Agreement may be amended unless such amendment is agreed to in writing and signed by both Employee and an authorized officer of the Company. No waiver by either party of any breach by the other party of any condition or provision contained in this Agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and signed by the Employee or an authorized officer of the Company, as the case may be.

16. Severability. In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, in whole or in part, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect to the fullest extent permitted by law.

17. Survivorship. The respective rights and obligations of the parties hereunder shall survive any termination of Employee's employment with the Company to the extent necessary to the intended preservation of such rights and obligations as described in this Agreement.

18. Governing Law. This Agreement shall be governed by and construed and interpreted in accordance with the laws of the State of Colorado, without reference to principles of conflict of laws.

19. Arbitration. With the sole exception of the injunctive relief contemplated by Paragraph 10(a), any controversy or claim arising out of any aspect of the relationship of the parties hereto, will be settled by binding arbitration in Denver, Colorado by a panel of three arbitrators in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Judgment upon any arbitration award may be entered in any court having jurisdiction thereof and the parties consent to the jurisdiction of the courts of the State of Colorado for this purpose.

20. Notices. Any notice given to either party shall be in writing and shall be effective when given, and shall in any event be deemed to be given upon receipt, or if earlier, (a) five (5) days after deposit with the U.S. Postal Service or other applicable postal service, if delivered by first class mail, postage prepaid, (b) upon delivery, if delivered by hand, (c) one (1) business day after the business day of deposit with Federal Express or similar overnight courier, freight prepaid or (d) one (1) business day after the business day of facsimile transmission, if delivered by facsimile transmission with copy by first class mail, postage prepaid, and shall be duly addressed to the party concerned at the address indicated below or to such changed address as such party may subsequently give such notice of:

If to the Company, to:
2000 S Colorado Blvd.
Annex Ste. 200
Denver CO 80222

If to Employee, to:
3773 S Dayton Way
Aurora CO 80014

21. Headings. The headings of the Paragraphs contained in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this Agreement.

22. Counterparts; Facsimile Signatures. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument. This Agreement may be executed by facsimile signature and the facsimile signature of any party shall constitute and original in all respects.

IN WITNESS WHEREOF, the parties hereto have executed or caused to be executed this instrument on the date first above written.

/s/: Wayne Harding

/s/ Gary Barber, Chair of the Compensation Committee
Two Rivers Water Company

EXHIBIT 21.1
List of Subsidiaries of Two Rivers Water Company

| Company | State of Organization | Ultimate Parent | Immediate Parent | % Ownership |
|--------------------------------------|------------------------------|--------------------------|--------------------------|--------------------|
| Two Rivers Water Company | CO | | | |
| TRWC, Inc. | CO | Two Rivers Water Company | Two Rivers Water Company | 100 |
| HCIC Holdings, LLC | CO | Two Rivers Water Company | TRWC, Inc. | 100 |
| Huerfano-Cucharas Irrigation Company | CO | Two Rivers Water Company | HCIC Holdings | 91 |
| Two Rivers Water LLC | CO | Two Rivers Water Company | Two Rivers Water Company | 100 |
| Two Rivers Farms LLC | CO | Two Rivers Water Company | Two Rivers Water Company | 100 |
| Two Rivers Farms F-1 LLC | CO | Two Rivers Water Company | Two Rivers Water Company | 100 |
| Two Rivers Energy LLC | CO | Two Rivers Water Company | Two Rivers Water Company | 100 |
| Northsight, Inc. | CO | Two Rivers Water Company | Two Rivers Water Company | 98 |
| Southie Developments LLC | CO | Two Rivers Water Company | Northsight, Inc. | 98 |

Exhibit 31.1

CERTIFICATION PURSUANT TO 18 U.S.C. ss. 1350, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John McKowen, certify that:

1. I have reviewed this annual report on Form 10-K of Two Rivers Water Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

Dated: March 29, 2011

By: /s/ John McKowen

Chief Executive Officer and Chairman of the Board

Exhibit 31.2

CERTIFICATION PURSUANT TO 18 U.S.C. ss. 1350, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Wayne Harding, certify that:

1. I have reviewed this annual report on Form 10-K of Two Rivers Water Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

Dated: March 29, 2011

By: /s/ Wayne Harding
Chief Financial Officer & Principal Accounting Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Two Rivers Water Company on Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John McKowen Chief Executive Officer and Chairman of the Board of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 29, 2011

By: /s/ John McKowen
Chief Executive Officer and Chairman of the Board

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Two Rivers Water Company on Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Wayne Harding, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 29, 2011

By: /s/ Wayne Harding
Chief Financial Officer & Principal Accounting Officer

Exhibit 99.1
Two Rivers Water Company
Board Code of Conduct

Introductory Statement

Two Rivers Water Company and its subsidiaries (collectively, “the Company”) is committed to conducting business in accordance with the highest standards of business ethics and complying with applicable laws, rules and regulations. In furtherance of this commitment, the Board of Directors (the “Board”) promotes ethical behavior, and has adopted this Code of Business Conduct and Ethics for Directors (“Code”).

Every Director must:

- (i) represent the interests of the shareholders of the Company;
- (ii) exhibit high standards of integrity, commitment and independence of thought and judgment;
- (iii) dedicate sufficient time, energy and attention to ensure the diligent performance of his or her duties; and
- (iv) comply with every provision of this Code.

Conflicts of Interest

Directors must avoid conflicts of interest. A conflict of interest occurs when an individual's private interest interferes in any way with the interests of the Company. A conflict of interest may also arise when a Director, or a member of his or her immediate family¹, receives improper personal benefits as a result of his or her position in the Company. Directors should also be mindful of, and seek to avoid, conduct which could reasonably be construed as creating an appearance of a conflict of interest.

While the Code does not attempt to describe all possible conflicts of interest that could develop, the following are examples of conflicts of interest:

- (i) receiving loans or guarantees of obligations as a result of one's position as a Director;
- (ii) engaging in conduct or activity that improperly interferes with the Company's existing or prospective business relations with a third party;
- (iii) accepting bribes, kickbacks or any other improper payments for services relating to the conduct of the business of the Company; and
- (iv) accepting, or having a member of a Director's immediate family accept, a gift from persons or entities that deal with the Company, in cases where the gift is being made in order to influence the Directors' actions as a member of the Board, or where acceptance of the gift could otherwise reasonably create the appearance of a conflict of interest.

Any question about a Director's actual or potential conflict of interest with the Company should be brought promptly to the attention of the Chairman of the Governance and Nominating Committee and the Chairman of the Board, who will review the question and determine an appropriate course of action, including whether consideration or action by the full board is necessary. Directors involved in any conflict or potential conflict situations shall recuse themselves from any decision relating thereto.

Business Relationships with Directors

For the purpose of minimizing the risk of conflicts of interest, the Board shall adopt a policy providing for the review of transactions with the Company or any of its affiliates in which any Director (including and member of a Director's immediate family) has a direct or indirect material interest.

Use of Corporate Information, Opportunities and Assets

Directors may not compete with the Company, or use opportunities that are discovered through the use of Company property, Company information or position, for their personal benefit or the benefit of persons or entities outside the Company. No Director may improperly use or waste any Company asset.

Confidentiality

Pursuant to their fiduciary duties of loyalty and care, Directors are required to protect and hold confidential all non-public information obtained due to their directorship position absent the express or implied permission of the Board of Directors to disclose such information. Accordingly,

- (i) no Director shall use Confidential Information for his or her own personal benefit or to benefit persons or entities outside the Company; and
- (ii) no Director shall disclose Confidential Information outside the Company, either during or after his or her service as a

Director of the Company, except with authorization of the Board of Directors or as may be otherwise required by law.

"Confidential Information" is all non-public information entrusted to or obtained by a Director by reason of his or her position as a Director of the Company. It includes, but is not limited to, non-public information that might be of use to competitors or harmful to the Company or its customers if disclosed, such as:

- non-public information about the Company's financial condition, prospects or plans, its marketing and sales programs and research and development information, as well as information relating to mergers and acquisitions, stock splits and divestitures;
- non-public information concerning possible transactions with other companies or information about the Company's customers, suppliers or joint venture partners, which the Company is under an obligation to maintain as confidential; and
- non-public information about discussions and deliberations relating to business issues and decisions, between and among employees, officers and Directors.

Compliance with Laws, Rules and Regulations

The Company requires strict compliance by all its Directors with applicable laws, rules and regulations. These include federal and other securities laws, including insider trading laws, and the Company's insider trading compliance policies.

Fair Dealing

Directors must deal fairly with the Company's employees, customers, suppliers and competitors. No Director may take unfair advantage of the Company's employees, customers, suppliers, or competitors through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair-dealing practice.

Accountability

The Code referred to herein is mandatory and applies to all Directors, who are accountable for compliance with the Code.

Directors should communicate any suspected violations of this Code promptly to the Chairman of the Governance and Nominating Committee and the Chairman of the Board. Suspected violations will be investigated by or at the direction of the Board or the Governance and Nominating Committee, and appropriate action will be taken in the event that a violation is confirmed.

Waiver

Any waiver of any provision of the Code may be made only by the Board or by the Governance and Nominating Committee, and must be promptly disclosed to the Company's shareholders as required by applicable law or securities exchange regulations.

¹ As used herein, the term "immediate family" means a Director's spouse, parents, children, siblings, mothers- and fathers-in-law, sons- and daughters-in-law, brothers- and sisters-in-law and anyone - other than an employee - sharing the Director's home.

Exhibit 99.2
Two Rivers Water Company
Audit Committee Charter

Purpose: The primary functions of the Audit Committee are to:

1. Oversee management's establishment and maintenance of processes to provide for the reliability and integrity of the accounting policies, financial statements, and financial reporting and disclosure practices of the Company.
2. Oversee management's establishment and maintenance of processes to provide for an adequate system of internal control over financial reporting at the Company and management's policies and guidelines for the assessment and management of risk, and oversee the Company's compliance with laws and regulations relating to financial reporting and internal control over financial reporting.
3. Oversee management's establishment and maintenance of processes to provide for compliance with the Company's financial policies.
4. Retain the independent registered public accounting firm, subject to shareholders' vote, and oversee their independence and oversee the qualifications and performance of both the independent registered public accounting firm and internal auditors.
5. If necessary, prepare the report required by the rules of the Securities and Exchange Commission to be included in the Company's annual proxy statement.

Responsibilities and Duties: Among its responsibilities and duties, the Audit Committee shall:

Process and Administration

1. Hold at least two meetings per year and such additional meetings as may be called by the Chairperson of the Audit Committee, by a majority of the members of the Audit Committee, or at the request of the independent registered public accounting firm or the Chief Financial Officer. A quorum shall consist of a majority of members.
2. Create an agenda for the ensuing year.
3. Report through its Chairperson to the Board of Directors following the meetings of the Audit Committee.
4. Maintain minutes or other records of meetings and activities of the Audit Committee.
5. Review the responsibilities outlined in this charter annually and report and make recommendations to the Board of Directors on any revisions to this charter.
6. Conduct or authorize investigations into any matters within the Audit Committee's scope of responsibilities.
7. Provide a mechanism for the independent registered public accounting firm to communicate directly with the Audit Committee without management present and periodically meet separately with the independent registered public accounting firm and management.
8. Delegate authority to one or more members where appropriate.
9. Establish a process for, and conduct, an annual performance evaluation of the Audit Committee.

Monitoring and Oversight Activities

1. Review with management and the independent registered public accounting firm significant risks and exposures, and review and assess the steps management has taken to identify and manage such risks and exposures.
2. Review and discuss earnings releases, as well as corporate policies with respect to the types of information to be disclosed and types of presentations to be made to analysts and rating agencies.
3. Review and discuss with management and the independent registered public accounting firm the Company's unaudited quarterly and audited annual financial statements, including (a) matters required to be discussed by the independent registered public accounting firm by Statement on Auditing Standards No. 61 (as amended and as adopted by the Public Company Accounting Oversight Board), and the independent registered public accounting firm's opinion rendered with respect to annual financial statements, and (b) the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations." The discussion should include, where appropriate, a discussion about the Company's critical accounting estimates, accounting principles, financial statement presentation, the quality of earnings, significant financial reporting issues and judgments (including off-balance sheet structures and the use of pro forma or non-GAAP financial information), the adequacy of the Company's internal controls, and any regulatory and accounting initiatives, correspondence with regulators, and published reports that raise material issues with respect to, or that could have a significant effect on, the Company's financial statements. Based on this review and discussion, recommend, as appropriate, to the Board of Directors the inclusion of the audited financial statements in the Company's Form 10-K and annual report.
4. Review and discuss the adequacy and effectiveness of the Company's disclosure controls and procedures and internal control over financial reporting including obtaining from management its assessments of the Company's internal control over financial

reporting; review the recommendations made by management and the independent registered public accounting firm and internal auditors regarding internal control over financial reporting and other matters relating to the accounting procedures and the books and records of the Company and review any material weaknesses or significant deficiencies in, or changes to, internal control over financial reporting or any fraud involving management reported to the Audit Committee by the independent registered public accounting firm or management and the resolution of any material weaknesses or significant deficiencies.

5. Receive reports relating to, and provide the Audit Committee's views with respect to, any information regarding accounting, internal accounting controls, or audit matters that the Corporate Governance Committee has become aware of as a result of monitoring the Company's compliance with laws, regulations, and the Global Code of Conduct.
6. Establish and oversee procedures for the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and for the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
7. Review and approve expense accounts of the Chairman and the Chief Executive Officer (this activity is performed by the Audit Committee Chairperson) and review and discuss the policies and procedures regarding other executive officers' expense accounts and use of corporate assets.
8. Perform other functions as assigned by the Board of Directors.

Independent Registered Public Accounting Firm

1. Be directly responsible, in its capacity as a committee of the Board, for the appointment, compensation, retention and oversight of the work of the independent registered public accounting firm. In this regard, the Audit Committee has the sole authority to appoint, although it may seek ratification by the Company's shareholders, review the performance of, and as necessary, replace the independent registered public accounting firm, which reports directly to the Audit Committee.
2. Receive from the independent registered public accounting firm, at least annually, and assess and discuss with the independent registered public accounting firm a report delineating all relationships between the independent registered public accounting firm and the Company and any other relationships that may adversely affect the independence of the independent registered public accounting firm, including an assurance that each member of the engagement team is in compliance regarding length of service.
3. Review and approve in advance, at the discretion of the Committee, all services planned or expected to be rendered by the Company's independent registered public accounting firm in accordance with the Audit Committee's "Engaging the Independent Registered Public Accounting Firm" policy, along with a description of the services and the estimated fees. (By approving the audit engagement, a service within the scope of such engagement shall be deemed to have been pre-approved.)
4. Review any reports prepared by the independent registered public accounting firm and provided to the Audit Committee relating to significant financial reporting issues and judgments including, among other things, the Company's selection, application, and disclosure of critical accounting policies and practices, alternative treatments, assumptions, estimates or methods that have been discussed with management, including the ramifications of such treatments and the treatment preferred by the independent registered public accounting firm, and any other material written communications between the independent registered public accounting firm and management, such as any management letter or schedule of unadjusted differences.
5. Obtain and review, at least annually, a report by the independent registered public accounting firm describing (a) the auditing firm's internal quality-control procedures, and (b) any material issues raised by the most recent internal quality-control review or peer review of the firm, or by any inquiry or investigation by governmental or professional authorities or inspection by the Public Company Accounting Oversight Board, within the preceding five years, and any actions taken to address any such issues.
6. As appropriate confer with the independent registered public accounting firm regarding the scope and results of their integrated audit of the consolidated financial statements of the Company, and management's assessment of the Company's internal control over financial reporting; review and approve the independent registered public accounting firm's audit scope and approach and their plans, if any; review and approve the Company's internal audit charter, annual audit plans, staffing and budgets (including progress against those plans/staffing/budgets; direct the attention of the independent registered public accounting firm to specific matters or areas deemed by the Audit Committee or the auditors to be of special significance; review with the independent registered public accounting firm and resolve, where applicable, any audit problems or difficulties and management's response, including any restrictions on the scope of the independent registered public accounting firm's activities or on access to requested information, and disagreements between management and the independent registered public accounting firm regarding accounting and financial disclosure, as well as any other matters required to be brought to the Audit Committee's attention by applicable auditing standards; and authorize the independent registered public accounting firm to perform such supplemental reviews or audits as the Audit Committee may deem desirable.
7. Set clear hiring policies for employees and former employees of the independent registered public accounting firm.

Composition: The Audit Committee shall be appointed by the Board of Directors and be composed of at least three Directors, including a Chairperson, each of whom shall meet the NYSE definition of "independent" for directors and audit committee members, including the definition set forth in Rule 10A-3 under the Securities Exchange Act of 1934, as determined by the Board of Directors, and any additional standards adopted by the Board. All Audit Committee members shall, in the judgment of the Board of Directors, be financially literate and at least one member shall be an audit committee financial expert, as defined by the U.S. Securities and Exchange Commission. At least one member of the Audit Committee shall be qualified as an accounting expert.

Assignment and Removal of Committee Members: Audit Committee members shall serve until their resignation, retirement or removal by the Board or until a successor is appointed. An Audit Committee member may be removed by majority vote of the independent Directors of the full Board.

Members will be appointed to the Committee by the Board of Directors, upon the recommendation of the Corporate Governance Committee. Audit Committee assignments will be based on the Board member's business and professional experience and qualifications. The need for continuity, subject matter expertise, tenure and the desires of the individual Board members will also be considered.

No member of the Audit Committee may serve simultaneously on the audit committees of more than two other public companies.

Outside Advisors: The Audit Committee shall have the authority, and shall have appropriate funding from the Company, to retain independent counsel, accountants and other advisors as the Audit Committee determines appropriate to assist it in the performance of its functions, as well as funding for ordinary administrative expenses incurred by the Audit Committee in carrying out its duties.

Role of Committee: Although the Audit Committee has the powers and responsibilities set forth in this charter, the role of the committee is generally oversight. The members of the Audit Committee are not full-time employees of the Company and generally are not accountants or auditors by profession. Consequently, the Audit Committee does not conduct audits, independently verify management's representations, or determine that the Company's financial statements and disclosures are complete and accurate, are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), or fairly present the financial condition, results of operations and cash flows of the Company in accordance with GAAP. These are the responsibilities of management. The independent registered public accounting firm is responsible for expressing an opinion on the Company's financial statements and internal control over financial reporting based upon their audit. The Audit Committee's considerations and discussions with management and the independent registered public accounting firm do not assure that the Company's financial statements are presented in accordance with GAAP or that the audit of the Company's financial statements has been carried out in accordance with auditing standards adopted by the Public Company Accounting Oversight Board.

Exhibit 99.3
Two Rivers Water Company
Nominating, Compensation and Corporate Governance Committee Charter

Purpose

The primary functions of the Two Rivers Water Company (the “Company”) Nominating, Compensation and Corporate Governance Committee (the “Committee”) are to:

1. Identify and recommend to the Board for election and/or appointment qualified candidates for membership on the Board and the committees of the Board.
2. Review director candidates proposed by shareholders. The Chairman of the Committee will review director nominations received from shareholders and self-nominated candidates to determine whether the candidate possesses the minimum qualifications for membership on the Board.
3. Discuss and set compensation for officers of the Company.
4. Develop and recommend to the Board corporate governance principles and monitor compliance with all such principles and policies.
5. Propose a slate of candidates for election as Directors at each Annual Meeting.
6. Develop and monitor succession plans for the members of the Board, the members of the Committees of the Board, and the Chair of the Committees of the Board.

Responsibilities and Duties

Among its responsibilities and duties, the Committee shall:

1. Develop and recommend to the Board criteria for selecting new Directors and qualifications for members of the committees of the Board.
2. Develop and recommend to the Board criteria to assess the independence of members of the Board.
3. Review and periodically make recommendations to the Board concerning the composition, size, structure and activities of the Board and the committees of the Board.
4. Oversee the evaluation of the Board and its Committees.
5. Annually assess and report to the Board on the performance and effectiveness of the Board, the Committee and the other committees of the Board, and other issues of corporate governance.
6. Review conflicts of interest of Directors, senior executives and consider waivers or other action related thereto.
7. Annually review and report to the Board with respect to Director and officer compensation and benefits.
8. Annually review succession plans for the members of the Board, the members of the Committees of the Board, and the Chair of the Committees of the Board.
9. Report to shareholders in the Corporation's annual proxy statement about the director nomination process as required by the Securities and Exchange Commission rules.
10. Review this Charter on an annual basis and update it as appropriate, and submit it for the approval of the Board when updated.
11. Undertake such other responsibilities or tasks as the Board may delegate or assign to the Committee from time to time.

Composition

The Committee shall be comprised of members with the following qualifications:

1. The Committee shall consist entirely of independent Directors of the Board, as set forth in the Corporation's Corporate Governance Guidelines.
2. The requisite number of the members of the Committee shall also satisfy, in the judgment of the Board, the applicable independence requirements.
3. Each member of the Committee shall be free of any relationship that, in the judgment of the Board from time to time, would interfere with the exercise of his or her independent judgment.

General

1. The Chairperson shall be appointed by the Board.
2. The Committee shall meet at least two (2) times each year, or more frequently as circumstances require.
3. The timing of the meetings shall be determined by the Committee and the Board.

4. The Committee may delegate any of its duties to subcommittees comprised of Committee members as the Committee may deem appropriate at its sole discretion.
5. The Board may at any time and in its complete discretion remove any member of the Committee and may fill any vacancy in the Committee.
6. A majority of the total number of members of the Committee shall constitute a quorum of the Committee.
7. A majority of the members of the Committee shall be empowered to act on behalf of the Committee.
8. Minutes shall be kept of each meeting of the Committee, and the Committee shall regularly provide reports of its actions to the Board.

Outside Advisors: The Committee shall have the authority, and shall have appropriate funding from the Company, to retain independent counsel, search firms and other advisors as the Committee determines appropriate to assist it in the performance of its functions, as well as funding for ordinary administrative expenses incurred by the Committee in carrying out its duties.

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