ALASKA HYDRO CORPORATION

CONSOLIDATED
INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTH PERIODS
ENDED JUNE 30, 2013 AND 2012

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF

INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying un-audited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Alaska Hydro Corporation

Consolidated Interim Balance Sheets
(in US Funds)

	(Unaudited) June 30 2013	*(Audited)* December 31 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 208	$ 12,717
Amounts receivable	3,637	2,528
Prepaid expenses and deposits	8,440	4,600
	12,285	19,845
Property plant and equipment *(note 4)*	6,899	8,349
	$ 19,184	$ 28,194
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 227,407	$ 251,006
Due to related party *(note 11)*	116,460	116,948
	343,867	367,954
Unearned income *(note 12)*	250,000	250,000
Convertible debentures *(note 6)*	246,428	248,274
Shareholders' equity (deficiency):		
Equity component of convertible debenture *(note 6)*	31,891	31,891
Paid-up share capital	28,000	-
Share capital *(note 7)*	3,016,226	3,001,276
Contributed surplus *(note 7)*	831,280	831,280
Accumulated other comprehensive income	19,999	14,091
Deficit	(4,748,507)	(4,716,572)
	(821,111)	(838,034)
	$ 19,184	$ 28,194

Nature of operations *and going concern (note 1)*
Commitments *(note 12)*

On behalf of the Board on August 29, 2013:

Signed *"Clifford A. Grandison"* Co-Chairman & Interim CEO

Signed: *"M. E. Hoole"* Chairman of the Audit Committee

Alaska Hydro Corporation

Consolidated Interim Statements of Loss and Comprehensive Loss
(in US Funds)

	For the thee months ended June 30 2013	For the thee months ended June 30 2012	For the six months ended June 30 2013	For the six months ended June 30 2012
Hydro project expenditures *(note 5)*	$ -	$ 345	$ -	$ 640
General and administrative:				
Professional fees	7,200	51,130	10,423	71,627
Share-based compensation	-	3,440	-	11,842
Accretion expense	-	3,267	3,237	6,564
Interest on convertible debentures	-	7,817	7,747	15,707
Office administration	154	1,258	626	1,857
Investor relations	-	-	440	887
Transfer agent, filing and sustaining fees	2,894	7,523	8,012	12,415
Depreciation	-	1,450	1,451	2,901
	10,248	75,885	31,936	123,800
Loss before other item	10,248	76,230	31,936	124,440
Other item:				
Interest income and other	-	3	1	4
Net loss for the period	(10,248)	(76,227)	(31,935)	(124,436)
Currency translation differences	-	5,887	5,908	(765)
Comprehensive loss for the period	$ (10,248)	$ (70,340)	$ (26,027)	$ (125,201)
Net loss per share - basic and diluted	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)
Weighted average shares outstanding	41,040,853	39,423,111	40,863,560	38,725,508
Shares outstanding at end of period	41,040,853	39,900,995	41,040,853	39,900,995

Alaska Hydro Corporation

Consolidated Interim Statements of Cash Flows
(in US Funds)

	For the thee months ended June 30 2013	For the thee months ended June 30 2012	For the six months ended June 30 2013	For the six months ended June 30 2012
Cash flows provided by (used in):				
Operating activities:				
Loss for the period	$ (10,248)	$ (76,227)	$ (31,935)	$ (124,436)
Item not affecting cash:				
Depreciation	-	1,450	1,451	2,901
Accretion expense	-	3,267	3,237	6,564
Share-based compensation	-	3,440	-	11,842
	(10,248)	(68,070)	(27,247)	(103,129)
Changes in non-cash working capital items:				
Amounts receivable and prepaid	-	7,643	(4,949)	6,496
Accounts payable and accrued liabilities	(22,445)	(39,075)	(13,516)	(32,927)
Cash provided by (used in) operating activities	(32,693)	(99,502)	(45,712)	(129,560)
Financing activities:				
Paid-up share capital	28,000	(24,973)	28,000	-
Shares issued	-	81,235	-	81,235
Share issue costs	-	-	(217)	-
Loans from (payments to) related parties	-	27,419	(488)	39,943
Cash (used in) provided by financing activities	28,000	83,681	27,295	121,178
Effect of foreign exchange on cash flows	-	5,887	5,908	(765)
Change in cash and cash equivalents during the period	$ (4,693)	$ (9,934)	$ (12,509)	$ (9,147)
Cash and cash equivalents - beginning of period	$ 4,901	$ 39,048	$ 12,717	$ 38,261
Cash and cash equivalents - end of period	$ 208	$ 29,114	$ 208	$ 29,114
Non-cash investing and financing activities				
Shares issued for interest	$ -	$ 10,544	$ 15,167	$ 15,842

Alaska Hydro Corporation

Consolidated Interim Statements of Changes in Equity
(in US Funds)

	For the six months ended June 30	
	2013	2012
Equity component of convertible debenture *(note 6)*		
Beginning of period	$ 31,891	$ 31,891
Issued	-	-
End of period	31,891	31,891
Paid-up Share Capital		
Beginning of period	-	-
Reciept	28,000	-
End of period	28,000	-
Share capital *(note 7)*		
Beginning of period	3,001,276	2,888,939
Shares issued for interest	15,167	15,822
Shares issued for private placement	-	81,235
Share issue costs	(217)	-
End of period	3,016,226	2,985,996
Contributed surplus *(note 7)*		
Beginning of period	831,280	818,481
Share based compensation	-	11,842
End of period	831,280	830,323
Accumulated other comprehensive income		
Beginning of period	14,091	25,332
Currency translation differences	5,908	(765)
End of period	19,999	24,567
Deficit		
Beginning of period	(4,716,572)	(4,703,144)
Loss	(31,935)	(124,436)
End of period	(4,748,507)	(4,827,580)
Total equity	$ (821,111)	$ (954,803)

1. NATURE OF OPERATIONS AND GOING CONCERN

Alaska Hydro Corporation, formerly Project Finance Corp., (the "Company" or "Alaska Hydro") was incorporated on October 16, 2006 under the British Columbia Business Corporations Act. Prior to September 3, 2010, the Company was a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange (the "Exchange"). On September 3, 2010 the Company completed its Qualifying Transaction (the "Qualifying Transaction") pursuant to the rules and policies of the Exchange by acquiring the net assets and operations of Cascade Creek LLC. ("Cascade"), a development stage hydro electric project. On that date the Company also changed its name to Alaska Hydro Corporation. The Company commenced trading on the Exchange as a Tier 2 Issuer on September 8, 2010 under its new name and trading symbol "AKH".

The Company incurred a net loss of $31,935 (2012 - $124,436) for the six months ended June 30, 2013, and had an accumulated deficit of $4,748,507 (2012 - $4,716,572) at June 30, 2013 which has been funded primarily by the issuance of equity. The Company does not have a project ongoing and its ability to continue as a going concern is dependent upon its ability to attract and develop projects, to raise sufficient financing and to obtain the required licenses for any project and to ultimately generate income and cash flows from operations of the project. The outcome of these matters cannot be predicted at this time and in the event they do not occur, the carrying value of the Company's assets may be adversely affected.

On September 24, 2012 the Company reported that the US Federal Energy Regulatory Commission ("FERC") has issued an order denying rehearing of Cascade's Preliminary Permit Application for development of the Cascade Creek Hydroelectric Project ("the Project"). Notwithstanding there was a provision in the Order that would allow the company to continue to pursue the FERC pre-filing requirements to prepare a license application, after careful consideration the Company determined that the probability of obtaining site control, in a form which would allow the Company to raise additional funds to pursue the Project was unlikely. On November 9, 2012 the Company announced its intention to abandon any further effort to develop the Cascade Creek hydropower project in Thomas Bay Alaska. The Company acquired the Project in 2010 and has spent $2,768,000 on the Project in an effort to produce a completed application for a FERC hydropower project licence.

The Company does not generate cash flows from operations and accordingly the Company will need to raise additional funds through future issuance of securities or debt financing. Although the Company has raised funds in the past, there can be no assurance the Company will be able to raise sufficient funds in the future, in which case the Company may be unable to meet its obligations as they come due in the normal course of business. It is not possible to predict whether financing efforts will be successful or if the Company will attain a profitable level of operations.

The current cash resources are not adequate to pay the Company's accounts payable and to meet its minimum commitments at the date of these Consolidated Financial Statements, including planned corporate and administrative expenses, and other project implementation costs, accordingly, there is significant doubt about the Company's ability to continue as a going concern. These financial statements do not give effect to adjustments that would be necessary to the carrying amounts and classifications of assets and liabilities should the Company be unable to continue as a going concern.

Alaska Hydro is a British Columbia corporation with its head office located at 2633 Carnation Street North Vancouver, British Columbia, Canada V7H 1H6

2. BASIS OF PREPARATION

a) Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The Company has consistently applied the same accounting policies throughout all periods presented.

These unaudited consolidated interim financial statements should be read in conjunction with our IFRS audited annual consolidated financial statements for the year ended December 31, 2012. These unaudited consolidated interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements including IAS 34, Interim Financial Reporting ("IAS 34"). In the opinion of management, all adjustments considered necessary for fair presentation have been included. Operating results for the six month periods ended June 30, 2013 and 2012 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2013.

b) Consolidation

The consolidated financial statements include the accounts of the Company and its 100% owned subsidiary, Cascade. Cascade was incorporated in the State of Alaska and as at June 30, 2013 is 100% owned by the Company. Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Measurement Basis

These consolidated financial statements are prepared on the historical cost basis except for certain financial instruments, which are measured at fair value as explained in the accounting policies set out below. All amounts are expressed in US dollars unless otherwise stated.

b) Equipment

Equipment is recorded at cost and is depreciated over the useful life of the equipment of 5 years, on a straight-line basis, except in the year of acquisition, when one half of the rate is used.

c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and bank deposits with original maturity dates of three months or less.

d) Power Project Development Costs

Power project development costs, incurred prior to the determination of the economic feasibility of the power project and a decision to proceed with development are charged to operations as incurred.

If a project is deemed to be economically feasible and a decision to proceed with the project is made by the Company, costs associated with the development of the project are capitalized and subsequently amortized over the life of the project. Capitalized costs of unsuccessful projects are written off as impaired in the period that a project is abandoned or when recovery of the costs is no longer regarded as assured.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Foreign Currency Translation

The functional currency of Alaska Hydro, the parent entity, is the Canadian dollar. The functional currency of Cascade, the subsidiary, is the US dollar. The presentation currency of the consolidated financial statements is the US dollar which represents the primary economic environment of the consolidated entity.

Transactions in foreign currencies are translated to the functional currency of the entity at the exchange rate in existence at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the period-end date exchange rates. Non-monetary items which are measured using historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Entities that have functional currencies other than the US dollar are translated from their functional currencies into US dollars on consolidation. Items in the statement of loss and comprehensive loss are translated using weighted average exchange rates that reasonably approximate the exchange rate at the transaction date. Items in the balance sheet are translated at the closing spot exchange rate. Exchange differences on the translation of the net assets of entities with functional currencies other than the US dollar, are recognized in a separate component of equity through other comprehensive income.

f) Long-lived Assets and Impairment

Long-lived assets are reviewed by management for possible impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. An impairment loss is recognized when the carrying amount of an asset exceeds the estimated undiscounted future cash flow expected to result from the use of the asset and its eventual disposition. As at June 30, 2013 and 2012, there was no impairment of the Company's long-lived assets.

g) Income Taxes

Income taxes are accounted for using the liability method of tax allocation. Under this method current income taxes are recognized for the estimated income taxes payable for the current year. Deferred income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities. Deferred income tax assets and liabilities are measured using substantially enacted tax rates that apply for the years in which the temporary differences are expected to be recovered or settled. Deferred income tax assets are recognized to the extent that it is probable the asset will be realized.

h) Loss per Share

Loss per share is calculated using the weighted average number of shares outstanding during the reporting period. The Company uses the treasury stock method for computing diluted loss per share. This method assumes that any proceeds obtained upon exercise of outstanding options or warrants would be used to purchase common shares at the average market price during the period. As the Company has recorded a net loss in the periods ended June 30, 2013 and 2012, basic and diluted net loss per share are the same because all potential dilutive shares are anti-dilutive.

i) Share Issue Costs

Professional, consulting, regulatory and other costs directly attributable to financing transactions are recorded as deferred financing costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise they are expensed as incurred. Share issue costs are charged to share capital when the related shares are issued. Deferred financing costs related to financing transactions that are not completed are charged to expenses.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Convertible Debentures

The value recorded for convertible debentures is separated into debt and equity based on the characteristics of this compound financial instrument. The Company uses the "residual valuation" method to determine the debt and equity components of the convertible debenture. Under the residual valuation method, the debt component is determined by estimating the present value of the future cash payments discounted at a rate of interest which the Company would be charged by the market for similar debt without the conversion option. The difference between the proceeds of the loan and the debt component is recorded as the equity component.

k) Use of Estimates and Judgements

The preparation of financial statements requires management to make certain estimates and assumptions. These estimates affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include the assessment of recoverability and valuation of assets, the determination of the expected life of equipment, expected future tax rates and the utilization of deferred income tax assets, fair value measurements for financial instruments, the estimated amount of accrued liabilities, estimation of debt and equity components of compound financial instruments, allocation of purchase consideration to net assets acquired and the measurement of share-based compensation transactions. Financial results as determined by actual events could differ from those estimates. Management has applied its judgement in the following areas, evaluating the Company's going concern prospects, determining to abandon its Cascade Creek Hydroelectric project and determining the Company's functional and reporting currencies.

l) Financial Instruments

All financial assets are initially recorded at fair value and classified into one of four categories: held to maturity, available for sale, loans and receivable or at fair value through profit or loss ("FVTPL"). All financial liabilities are initially recorded at fair value and classified as either FVTPL or other financial liabilities. Financial instruments comprise cash and cash equivalents, accounts payable and accrued liabilities, amounts due to related parties, and convertible debentures. At initial recognition management has classified financial assets and liabilities as follows:

a) Financial assets

The Company has classified its cash and cash equivalents at FVTPL. A financial instrument is classified at FVTPL if it is held for trading or is designated as such upon initial recognition. Transaction costs associated with financial instruments classified at FVTPL are expensed as incurred. Financial instruments at FVTPL are measured at fair value and changes therein are recognized in income.

b) Financial liabilities

The Company has classified its accounts payable, amounts due to related parties, and convertible debentures as other financial liabilities. The Company derecognizes a financial liability when it its contractual obligations are discharged, cancelled or expire. Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Share-based compensation

The Company records all share-based payments at fair value. Share-based compensation expense for share option grants to employees and others providing similar services is based on the fair value of the stock options issued at the grant date, which is determined using the Black-Scholes Option-Pricing Model. Where equity instruments are granted to non-employees, they are recorded at the fair value of goods or services received in the Statements of Loss and Comprehensive Loss. When the value of goods or services cannot be reliably estimated the Black-Scholes Option Pricing Model is used. Compensation expense for share options granted to non-employees is recognized as the options are earned and the services are provided. Compensation expense for share options granted to employees is amortized over the vesting period using a graded vesting assumption. Consideration paid together with fair value amount previously credited to contributed surplus, on the exercise of stock options, is recorded as share capital.

n) New Accounting Standards Issued but Not Yet Effective

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the International Financial Reporting Interpretations Committee (“IFRIC”) that are mandatory for accounting periods beginning after January 1, 2013, or later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

New accounting standards effective January 1, 2013

IFRS 10 *Consolidated Financial Statements* - IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation - Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements.*

IFRS 11 *Joint Arrangements* - IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-monetary Contributions by Venturers.*

IFRS 12 *Disclosure of Interests in Other Entities* - IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity’s interests in other entities.

IFRS 13 *Fair Value Measurement* - IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting standards effective January 1, 2013

Amendments to other standards - In addition, there have been other amendments to existing standards, including IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 13.

Each of the new standards, IFRS 10 to 13, IFRIC 20 and the amendments to other standards, is effective for the Company beginning on January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

New accounting standards effective January 1, 2015

IFRS 9 *Financial Instruments* - IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: Amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at the fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, others gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

IFRS 9 is effective for annual periods beginning on or after January 2015 with early adoption permitted by amendments to IAS 32, January 1, 2014. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

The Company has not early adopted these revised standards and is currently assessing the impact of these standards on the Company’s financial statements.

(In US Dollars)

4. EQUIPMENT

Cost	**Equipment**
As at December 31, 2012	$ 29,012
Additions	–
As at June 30, 2013	$ 29,012
Accumulated Depreciation	
As at December 31, 2012	$ 20,662
Depreciation	1,451
As at June 30, 2013	$ 22,113
Carrying Amounts	
Balance, December 31, 2012	$ 8,349
Balance, June 30, 2013	$ 6,899

5. POWER PROJECTS

Cascade Creek

The Project is comprised of a proposed 70 MW lake syphon hydro electric facility connecting Swan Lake to a powerhouse and a transmission line to a location near Petersburg, Alaska, USA. The project is estimated to generate an approximate average of 204 GW.h per year of renewable energy plus some storage capacity. The Cascade Creek project is part of the Thomas Bay project initiative, which consists of three potential hydro electric facility sites – Cascade Creek, Ruth Lake, and Scenery Lake that would all share transmission lines from Thomas Bay to Petersburg, Alaska.

On September 24, 2012 the Company reported that the US Federal Energy Regulatory Commission (“FERC”) has issued an order denying rehearing of Cascade’s Preliminary Permit Application for development of the Cascade Creek Hydroelectric Project (“the Project”). Notwithstanding there was a provision in the order that would allow the company to continue to pursue the FERC pre-filing requirements to prepare a license application, after careful consideration the Company determined that the probability of obtaining site control, in a form which would allow the Company to raise additional funds to pursue the Project was unlikely. On November 9, 2012 the Company announced its intention to abandon any further effort to develop the Cascade Creek hydropower project in Thomas Bay Alaska. The Company acquired the Project in 2010 and has spent $2,768,000 on the Project in an effort to produce a completed application for a FERC hydropower project licence.

(In US Dollars)

6. CONVERTIBLE DEBENTURES

		Jun 30 2013		Dec 31 2012
Convertible debentures with a face value of C$89,000, bearing interest at 12%, unsecured and due on January 21, 2014	$	82,930	$	83,395
Convertible debentures with a face value of C$90,000, bearing interest at 12%, unsecured and due on February 9,2014		84,287		84,982
Convertible debentures with a face value of C$75,000, bearing interest at 12%, unsecured and due on March 22, 2014		69,899		70,494
Convertible debentures with a face value of C$10,000, bearing interest at 12%, unsecured and due on May 2, 2014		9,313		9,403
Liability component of convertible debentures		246,428		248,274
Less: current portion		–		–
Long-term portion	$	246,428	$	248,274

During the year ended December 31, 2011, the Company completed, in four tranches, a private placement of convertible debentures. Under the Debenture Offering, the Company issued convertible debentures (the "Convertible Debentures") in the aggregate principal amount of $267,288 (C$264,000). The Convertible Debentures are convertible into common shares at a price of C$0.16 per common share for a three-year period from the date of issue. The Convertible Debentures bear interest at 12% per annum, payable semi-annually in arrears.

The Company used the residual value method to allocate the principal amount of the convertible debentures between the liability and equity components. Under this method, the value of the equity component of $31,891 (C$31,409) was determined by deducting the fair value of the liability component of C$231,188 and C$1,403 issue fees from the principal amount of C$264,000. The fair value of the liability component was computed as the present value of future principal and interest payments discounted at a rate of 17.5% per annum. The following tables summarize the changes in the liability and equity components of the convertible debentures during the period ended June 30, 2013:

Liability component		Jun 30, 2013		Dec 31, 2012
Balance, beginning of year	C$	247,008	C$	233,762
Gross proceeds from issuance		-		-
Amount allocated to the equity component		-		-
Direct issuance costs allocated to the liability component		-		-
Accretion		3,264		13,246
Balance, end of period		250,272		247,008
Less: current portion		-		-
Long-term portion, end of period	C$	250,272	C$	247,008
Long-term portion, end of period	US$	246,428	US$	248,274

(In US Dollars)

6. CONVERTIBLE DEBENTURES (continued)

Equity component		Jun 30, 2013		Dec 31, 2012
Balance, beginning of year	$	31,409	$	31,409
Gross proceeds from issuance		-		-
Amount allocated to the liability component		-		-
Direct issuance costs allocated to the equity component		-		-
Balance, end of period	C$	31,409	C$	31,409
Balance, end of period	US$	31,891	US$	31,891

The liability components of the convertible debentures are recorded at amortized cost and accreted to the principal amount over the estimated term of the convertible debentures using an effective interest rate of 17.5%.

Excluding finance fees and discounting, the Company's future estimated principal repayments of convertible debentures are as follows:

Fiscal Year		Amount
2014	C$	264,000
2015		–
	C$	264,000
	US$	259,945

(In US Dollars)

7. SHARE CAPITAL

(a) Authorized: 100,000,000 common shares without par value.

(b) Issued and Outstanding:

	Number of Shares		Share Capital		Contributed Surplus
Balance December 31, 2011	37,987,414	$	2,888,939	$	818,481
(1) Shares issued for non brokered private placement	1,600,000		81,235		-
(2) Shares issued for interest	780,439		31,746		-
Share issue costs	-		(644)		-
Options granted (Note 7(e))	-		-		12,799
Balance December 31, 2012	40,367,853	$	3,001,276	$	831,280
(3) Shares issued for interest	673,000		15,167		-
Share issue costs	-		(217)		-
Balance June 30, 2013	41,040,853	$	3,016,226	$	831,280

(1) On April 25, 2012 the Company closed a non-brokered private placement of 1,600,000 units at a price of $0.0508 (C$0.05) per unit for total receipt of $81,235 (C$80,000). Each unit is comprised of one common share in the capital of the issuer and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at an exercise price of $0.1015 (C$0.10) per share until April 25, 2017. None of the receipt were allocated to warrants as they had no intrinsic value at the time the units were issued.

(2) During the year ending December 31, 2012 the Company has elected to pay accrued interest on Convertible Debentures (Note 6) by the issuance of common shares, at a price per share equal to the market price of the common shares at the date of issuance. During the year the company issued 780,439 shares for $31,746 interest.

(3) During the six months ending June 30, 2013 the Company has elected to pay accrued interest on Convertible Debentures (Note 6) by the issuance of common shares, at a price per share equal to the market price of the common shares at the date of issuance. During the six month period the company issued 673,000 shares for $15,167 interest.

(c) Shares Held in Escrow:

At June 30, 2013, 2,040,595 of the issued and outstanding common shares were held in escrow.

(In US Dollars)

7. SHARE CAPITAL (continued)

(d) Warrants:

The current balance of outstanding warrants is as follows:

		Weighted Average Exercise Price	Warrants
Balance December 31, 2011	C$	0.19	16,399,935
Issued		0.10	1,600,000
Expired		0.12	(648,830)
Balance December 31, 2012	C$	0.18	17,351,105
Issued		-	-
Expired		0.16	(29,063)
Balance June 30, 2013	C$	0.18	17,322,042

The current balance of outstanding warrants by expiration date is as follows:

		Weighted Average Exercise Price	Warrants
September 3, 2015	C$	0.32	9,483,500
April 25, 2017		0.10	1,600,000
No expiration		-	6,238,542
Balance June 30, 2013	C$	0.18	17,322,042

(e) Options:

The Company grants stock options to directors, officers, employees and consultants as compensation for services, pursuant to its incentive Share Option Plan (the "Plan") options issued must have an exercise price greater than or equal to the "Discounted Market Price" of the Company's shares on the grant date. Options have a maximum expiry period of up to five years from the grant date and vest at such time as may be determined by the Board of Directors at the date of the grant. Options granted to consultants performing investor relations activities shall vest in stages over a 12-month period with a maximum of one-quarter of the options vesting in any three-month period. The number of options that may be issued under the Plan is limited to no more than 10% of the Company's issued and outstanding shares on the grant date.

(In US Dollars)

7. SHARE CAPITAL (continued)

(e) Options (continued):

The current balance of outstanding options is as follows:

	Weighted Average Exercise Price (C$)	Options
Balance December 31, 2011	$ 0.16	2,700,000
Cancelled	0.16	(375,000)
Balance December 31, 2012 and June 30, 2013	$ 0.16	2,325,000

The weighted average remaining contractual lives of the outstanding options are:

Expiration Date	Vested	Outstanding		Weighted Average Exercise Price (C$)	Weighted Average Remaining Contractual Life
September 3, 2013	140,000	140,000	$	0.10	0.4 years
December 1, 2015	1,750,000	1,750,000		0.16	2.7 years
July 22, 2016	100,000	100,000		0.12	3.3 years
August 18, 2016	60,000	60,000		0.18	3.4 years
September 20, 2016	275,000	275,000		0.16	3.5 years
Balance June 30, 2013	2,325,000	2,325,000	$	0.16	2.7 years

8. MANAGEMENT OF CAPITAL

The Company’s objective when managing capital is to safeguard the Company’s ability to continue as a going concern. The Company does not have any externally imposed capital requirements to which it is subject. The Company seeks to manage capital to provide adequate funding for its projects while minimizing dilution for its existing shareholders. As the Company is a development stage venture issuer it has limited ability presently to raise money by long term or any other kind of debt. For practical purposes and subject to limited exceptions all of its capital management is directed towards management of its issues of equity including warrants. There is very limited flexibility in its capital management.

9. FINANCIAL INSTRUMENTS AND RISK

Financial Instruments

As at June 30, 2013, the Company's financial instruments consist of cash and cash equivalents, accounts payable, convertible debt and amounts due to related parties and convertible debt. The fair values of these financial instruments approximate their carrying values because of their current nature.

Liquidity Risk

All of the Company's current financial liabilities have contractual maturities of 30 days or less or are due on demand and are subject to normal trade terms. The Company does not have investments in any asset backed commercial paper or similar instruments.

The Company does not generate cash flows from operations and accordingly the Company will need to raise additional funds through future issuance of securities or debt financing. Although the Company has raised funds in the past, there can be no assurance the Company will be able to raise sufficient funds in the future, in which case the Company may be unable to meet its obligations as they come due in the normal course of business. It is not possible to predict whether financing efforts will be successful or if the Company will attain a profitable level of operations.

The current cash resources are not adequate to pay the Company's accounts payable and to meet its minimum commitments at the date of these Consolidated Financial Statements, including planned corporate and administrative expenses, and other project implementation costs. These financial statements do not give effect to adjustments that would be necessary to the carrying amounts and classifications of assets and liabilities should the Company be unable to continue as a going concern.

Foreign Exchange Risk

The Company does monitor its foreign exchange risk. A significant portion of the Company's transactions are in US funds whereas the equity based sources of capital are in Canadian dollars.

Interest Rate Risk

The Company manages its interest rate risk by obtaining commercial deposit interest rates available in the market from major Canadian financial institutions. The Company has guaranteed investment certificates. The following table summarizes the impact of reasonable possible changes in interest rates for the Company at June 30, 2013 and June 30, 2012. The sensitivity analysis is based on the assumption that the interest rate changes by 1% with all other variables remaining constant. The 1% sensitivity is based on reasonably possible changes over a financial year, using the observed range of historical rates for the preceding year.

	2013	2012
Impact on net loss:		
1% increase	$ 2	$ 291
1% decrease	$ (2)	$ (291)

(In US Dollars)

10. FINANCIAL INSTRUMENTS AND RISK (continued)

Fair Value

The Corporation classifies its fair value measurements in accordance with an established hierarchy that prioritizes the inputs in valuation techniques used to measure fair value as follows:

Level 1- Unadjusted quoted prices in active markets for identical assets or liabilities
Level 2 -Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, and
Level 3 - Inputs that are not based on observable market data

The following table sets forth the Corporation's financial assets measured at fair value on a recurring basis by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total June 30, 2013
Cash and cash equivalents	$ 208	$ –	$ –	$ 208
	$ 208	$ –	$ –	$ 208

11. RELATED PARTY TRANSACTIONS AND BALANCES

a) Due to Related Parties

As at June 30, 2013, the Company has accrued $116,460 (December 31, 2012 - $116,948) due to directors and companies controlled by directors or officers of the Company for engineering and consulting services. The amounts are non-interest bearing, unsecured and due on demand.

b) Transactions with Related Parties

During the periods ended June 30, 2013 and 2012, the Company had the following related party transactions:

i) For the period ended June 30, 2013, the Company paid or incurred a total of $Nil (2012 - $37,846) to a director for legal services and to a company controlled by an officer for CFO services.

ii) For the period ended June 30, 2013, the Company paid or incurred a total of $Nil (2012 - $Nil) to a company controlled by a former director, and in which another director is an officer, for consulting and engineering services relating to the Cascade Creek hydro electric project.

iii) The remuneration of the Company’s directors and certain officers is comprised as follows:

	Jun 30, 2013	**Jun 30, 2012**
Management fees	$ —	$ 5,938
Share-based compensation	—	11,482
Total	$ —	$ 17,340

These transactions are in the normal course of operations and are recorded at their exchange amounts, which is the consideration agreed upon by the related parties.

12. COMMITMENTS

a) Unearned Income

On January 13, 2009, the Company entered into an agreement with the City and Borough of Wrangell (the "City") for the Company to construct, own, operate, and maintain the Cascade Creek facility for the generation of electric power located in Thomas Bay, Alaska, USA. The Company agreed to sell up to 1% of the net output to the City and the City has the first right of refusal to purchase 1% of the net output from the Company for a period of 25 years at the break even production cost.

As consideration for the right of refusal the City advanced a payment of $250,000 to the Company in 2009. In the event the Company defaults on certain of the conditions of the agreement, the Company must repay any payment made by the City, plus interest at a maximum statutory rate from the date of such payment, with the repayment obligation to be secured by a lien against the Company's assets.

b) Consulting and Engineering Services

The Company has an ongoing non-exclusive agreement with a company controlled by a former director and in which another director is an officer, for permitting and technical consulting services as directed by the Company. Fees are to be paid for time and materials in accordance with an agreed fee schedule. Either party may terminate the agreement by giving reasonable notice to the other party.

13. SUBSEQUENT EVENTS

On August 12, 2013 at the Company's Annual and Special General Meeting the shareholders elected Cliff Grandison, Matthew Bell, Michael Hoole, Steve Marmon, Len Schmidt and Chris Spens as directors of the Company. In addition, shareholders approved all of the proposed resolutions by overwhelming majorities, including authorizing a possible future consolidation of the Company's shares, and, subject to TSX Venture Exchange approval which has not yet been obtained, changes to the Company's Incentive Stock Option Plan and the granting of options.