ALASKA HYDRO CORPORATION
(formerly Project Finance Corp.)

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2010 AND 2009

(Unaudited)

These unaudited consolidated interim financial statements have
not been reviewed by the Company's auditor.

Alaska Hydro Corporation (formerly Project Finance Corp.)

Consolidated Interim Balance Sheets

As at September 30, 2010 and December 31, 2009

(in US Funds - unaudited)

	September 30 2010	December 31 2009 (audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 810,720	$ 24,650
Accounts receivable	23,716	19,600
Property Plant and Equipment *(Note 3)*	17,991	16,410
	$ 852,427	$ 60,660
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 82,678	$ 83,724
Convertible debentures	-	24,545
Due to member	-	7,500
	82,678	115,769
Unearned income	250,000	250,000
Shareholders' Equity:		
Equity component of convertible debenture	-	5,455
Share capital *(Note 5)*	2,721,123	-
Contributed surplus *(Note 5)*	19,479	-
Exchangeable warrants	33,341	-
Deficit	(2,254,194)	(310,564)
	519,749	(305,109)
	$ 852,427	$ 60,660

Nature of Operations *(Note 1)*

On behalf of the Board:

Signed *"Clifford Grandison"* Director

Signed *"M. E. Hoole"* Director

The accompanying notes are an integral part of these interim financial statements

Alaska Hydro Corporation (formerly Project Finance Corp.)
Consolidated Interim Statements of Loss and Deficit
For the Three and Six Month Periods ended September 30, 2010 and 2009
(in US Funds - unaudited)

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Hydro project expenditures	$ 189,783	$ -	$ 420,263	$ -
General and Administrative:				
Wages and benefits	23,279	24,261	60,625	70,579
Professional fees	50,959	7,885	104,373	16,166
Transfer agent	4,197	-	4,197	-
Travel and accommodation	795	190	5,620	9,949
Filing fees	6,942	-	6,942	-
Office and miscellaneous	18,137	1,651	27,426	6,708
Amortization	1,223	-	3,191	-
	105,532	33,987	212,374	103,402
Loss before other item	295,315	33,987	632,637	103,402
Other item:				
Interest income	655	-	655	-
Net loss and comprehensive loss for the period	(294,660)	(33,987)	(631,982)	(103,402)
Deficit, Beginning of period	(1,959,534)	(1,510,939)	(1,622,212)	(1,441,524)
Deficit, End of period	$ (2,254,194)	$ (1,544,926)	$ (2,254,194)	$ (1,544,926)
Net Loss per Share - Basic and Diluted	$ (0.02)	$ (0.00)	$ (0.06)	$ (0.00)
Weighted Average Shares Outstanding	19,443,259	23,761,458	10,157,116	23,761,458

Alaska Hydro Corporation (formerly Project Finance Corp.)

Consolidated Interim Statements of Cash Flows

For the Three and Six Month Periods ended September 30, 2010 and 2009

(in US Funds - unaudited)

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Cash Flows Provided by (Used in):				
Operating Activities:				
Loss for the period	$ (294,660)	$ (33,987)	$ (631,982)	$ (103,402)
Item not affecting cash:				
Amortization	1,223	-	3,191	-
Accrued interest on convertible debentures	(2,578)	-	-	-
	(296,015)	(33,987)	(628,791)	(103,402)
Changes in non-cash working capital items:				
Accounts receivable	(19,116)	16,967	(4,116)	(4,623)
Accounts payable and accrued liabilities	(183,099)	49,528	(33,091)	(63,094)
Cash used in operating activities	(498,230)	32,508	(665,998)	(171,119)
Financing Activities:				
Shares Issued for cash	1,457,458	-	1,457,458	-
Share issue costs	(153,329)	-	(153,329)	-
Proceeds from convertible debentures	(119,671)	-	-	-
Repayment to member	(33,586)	-	-	-
Advance on unearned income	-	-	-	250,000
Cash provided by financing activities	1,150,872	-	1,304,129	250,000
Investing Activities:				
Property plant and equipment	(4,772)	(37,260)	(4,772)	(113,706)
Fair value of assets aquired	160,329	-	160,329	-
Non cash business combination adjustments to retained earnings	(7,618)	-	(7,618)	-
Cash used in investing activities	147,939	(37,260)	147,939	(113,706)
Change in cash and cash equivalents during the period	$ 800,581	$ (4,752)	$ 786,070	$ (34,825)
Cash and cash equivalents - beginning of period	$ 10,139	$ 5,411	$ 24,650	$ 35,484
Cash and cash equivalents - end of period	$ 810,720	$ 659	$ 810,720	$ 659

1. NATURE OF OPERATIONS

Alaska Hydro Corporation (the "Company") was incorporated on October 16, 2006 (as Project Finance Corp.) under the British Columbia Business Corporations Act. The Company's shares are listed on the TSX Venture Exchange (the "TSX-V") under the symbol "AKH" as a Tier 2 industrial issuer.

On September 3, 2010 the Company completed the acquisition of Cascade Creek LLC. ("Cascade"), the shareholders of Cascade own approximately 80% of the common shares of the Company. This transaction has been treated as a capital transaction in accordance with Emerging Issue Committee Abstract EIC-10, "Reverse Takeover Accounting". The equity accounts will be presented as a continuation of Cascade and accordingly, the shareholders' equity of the Company will be eliminated.

The Cascade Creek 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 190 GW.h per year of renewable energy plus some storage capability. The Cascade Creek project is part of the Thomas Bay Energy Development, 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.

The Company is in the development stage and its continuing operations are dependent upon its ability to develop the hydro electric project, to raise sufficient financing and to obtain the required licenses from the US Federal Energy Regulatory Commission ("FERC"). Upon receiving the FERC license, the Company may proceed to complete and construct the hydro electric project and to ultimately generate income and cash flows from operation of the project. The outcome of these matters cannot be predicted at this time.

These unaudited consolidated interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2010 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2010.

On September 3, 2010 the Company completed its previously announced Qualifying Transaction. The Company acquired all of the issued and outstanding units of Cascade. The Company issued an aggregate of 22,636,458 common shares and 6,238,542 special warrants to the Vendors at a deemed price of $0.08 per common share or special warrant, as the case may be. Each special warrant is convertible into one common share for no additional consideration. The Vendors and the Company are at arm's length, accordingly the Qualifying Transaction was not a "Non-Arm's Length Qualifying Transaction". Upon completion of the Qualifying Transaction, the Company changed its name to "Alaska Hydro Corporation".

Of the 22,636,458 common shares and 6,238,542 special warrants issued to the Vendors, an aggregate of 28,875,000 common shares and special warrants are held in value escrow pursuant to the policies of the TSX-V. The remaining common shares subject to escrow will be released in 15% tranches in 6 month intervals thereafter. Of these securities, 6,000,000 common shares issued to certain of the Vendors are also subject to a performance escrow agreement.

Upon completion of the Qualifying Transaction, Cascade became a wholly-owned subsidiary of the Company, and the Company will carry on the business of Cascade. Further information regarding the business of Cascade can be found in the Company's filing statement which is available at www.sedar.com.

1. NATURE OF OPERATIONS (continued)

Concurrently with the closing of the Qualifying Transaction, the Company completed a financing (the "Brokered Financing") of 6,983,500 units ("Units") of the Company at a price of $0.16 per Unit for aggregate proceeds of $1,117,360. Each Unit is comprised of one Common Share of the Company and one Warrant. Each Warrant entitles the holder, on exercise, to acquire one Common Share at a price of $0.32 per common share until September 3, 2015. The Brokered Financing was conducted by way of Exchange Short Form Offering Document. In consideration for its services, Raymond James Ltd., the Agent, and members of its selling group received commission equal to 8% of the gross proceeds of the Brokered Financing. In addition, the Company issued an aggregate of 555,080 Agent's Warrants to the Agent and members of its selling group. Each Agent's Warrant entitles the holder, on exercise, to acquire one common share at a price of $0.16 per common share until September 3, 2012. In addition, the Agent receive a cash corporate finance fee and 93,750 corporate finance warrants, such warrants having the same terms as the Agent's Warrants.

In addition, concurrently with closing of the Qualifying Transaction, the Company completed a non-brokered private placement (the "Non-Brokered Financing") of 2,500,000 Units for aggregate proceeds of $400,000. No finder's fees or commissions were paid in connection with the Non-Brokered Financing. All of the common shares and Warrants issued under the Non-Brokered Financing are subject to a 4-month hold period expiring on January 4, 2011.

Effective September 3, 2010, Project Finance Corp. changed its name to "Alaska Hydro Corporation". The Company commenced trading on the TSX-V as a Tier 2 Issuer on September 8, 2010 under its new name and trading symbol "AKH".

Upon completion of the Qualifying Transaction, Terry Martinich and Rany Ratushny resigned as directors of the Company. Thom Fischer, Steve Marmon, Stephen Kulin and Matthew Bell were appointed as directors of the Company. In addition, Cliff Grandison resigned as President and Chief Executive Officer and Rany Ratushny resigned as Chief Financial Officer. Thom Fischer was appointed as President and Chief Executive Officer, Len Schmidt was appointed as Chief Financial Officer, Michael Hoole as Corporate Secretary, Cliff Grandison as Chairman of the Board, Duff Mitchell as VP Business Development and Steve Marmon as VP Operations. Mr. Mitchell subsequently left the employment of the Company.

The filing statement of the Corporation dated July 22, 2010, which describes the terms of the Acquisition, was filed with the Exchange and applicable securities commissions and is available on SEDAR under the Corporations profile at www.sedar.com.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Equipment and Amortization

Equipment is recorded at cost and is amortized 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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Power Project Development Costs

The Company capitalizes direct costs associated with development of its power projects. Costs associated with successful projects are reclassified as intangible assets and amortized over the useful life of the projects. Costs of unsuccessful projects are written off in the year the project is abandoned or when recovery of such costs can no longer be reasonably regarded as assured.

The recovery of power projects development costs is dependent upon the successful completion of the projects or the sale of projects to third parties. The successful completion of the power projects is dependent upon receiving the necessary water and other licenses, obtaining the necessary financing to successfully complete the development and construction of the projects, and the long-term generation and sale of sufficient electrical power on a profitable basis.

c) Impairment of Long-Lived Assets

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 September 30, 2010 and December 31, 2009, there was no impairment of the Company's long-lived assets.

d) Income Taxes

Until December 31, 2009, under the provisions of the US Internal Revenue Code and applicable state laws, Cascade was not directly subject to US income taxes as the members of the Cascade are treated as a partnership. As a result, all matters of federal and state income tax significance are proportionately allocated to the Cascade's members based upon their ownership interest. Therefore, no provision for income taxes has been included in these financial statements. Effective January 1, 2010 Cascade has been granted status as an association taxable as a corporation. As at September 30, 2010 there has been no provision for income taxes included in these financial statements.

e) Shareholder's Equity

The Company records proceeds from share issuances net of related issue costs.

f) Convertible Debentures

Convertible debentures are recorded in part as debt and in part as members' equity in its comparative statements. The Cascade 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 Cascade 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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Comprehensive Income

Comprehensive income is the change in net assets from transactions related to non-member sources. The Company presents gains and losses which would otherwise be recorded as part of net earnings in "other comprehensive income" until it is considered appropriate to recognize them into net earnings. The Company has no transactions in other comprehensive income in the periods presented, and as such comprehensive loss is the same as net loss.

h) Financial Instruments

The Company's financial instruments are classified into one of the following categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale assets or other financial liabilities.

Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale financial instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income and reported in members' equity.

The Company has classified its financial instruments as follows:

a) Cash and refundable deposits are classified as held-for-trading; and

b) Accounts payable and accrued liabilities, wages payable, convertible debentures and amounts due to member and related party are classified as other financial liabilities.

i) Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP 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 amortization period of equipment, and the estimated amount of accrued liabilities. Actual results could differ from those estimates.

j) Future Accounting Change - International Financial Reporting Standards ("IFRS")

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by IFRS for fiscal years beginning on or after January 01, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Company's reporting for the first quarter ending March 31, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

(In US Funds)

3. EQUIPMENT

	Cost $	Accumulated Amortization $	Net Book Value $
September 30, 2010 (Unaudited)			
Equipment	24,461	6,470	17,991
December 31, 2009 (Audited)			
Equipment	19,689	3,279	16,410

4. HYDRO ELECTRIC POWER PROJECTS

The Cascade Creek 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 190 GW.h per year of renewable energy plus some storage capacity. The Cascade Creek project is part of the Thomas Bay Energy Development, 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.

Cascade Creek

The Company maintains the preliminary permit for a three-year-period from February 14, 2008 for priority on the development application for this site. This project is in licensing phase of the application process with FERC. The permit expires on February 14, 2011.

Ruth Lake

The Company's preliminary permit for Ruth Lake expired on February 23, 2009. A subsequent preliminary permit was issued by FERC to the City of Angoon, Alaska on November 5, 2009. On October 5, 2009, a development agreement between the City of Angoon and the Company was reached in which the Company is to provide permitting and design, construction, and operational management services to the City of Angoon for this 20 MW, 70 GW.h project. This agreement is intended to last for an extended period of time, dependent on subsequent license renewals.

Scenery Lake

The Company's preliminary permit for Scenery Lake expired on February 23, 2009. A subsequent preliminary permit was issued by FERC to the City of Angoon, Alaska on October 1, 2009. On October 5, 2009, a development agreement between the City of Angoon and the Company was reached in which the Company is to provide permitting and design, construction, and operational management services to the City of Angoon for this 30 MW, 130 GW.h project. This agreement is intended to last for an extended period of time, dependent on subsequent license renewals.

(In US Funds)

5. SHARE CAPITAL

The Company's common shares trade on the TSX-V under the symbol "AKH".

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

Issued and outstanding:	Number of Shares		Share Capital		Contributed Surplus
Balance December 31, 2009 - Cascade Creek	-	$	-	$	-
Takeover transaction with Project Finance Corp. (subsequently Alaska Hydro Corporation)	4,260,000		-		-
(1) Share issue for Cascade equity	23,761,458		126,988		-
(2) Shares issued for non-brokered private placement	2,500,000		384,209		-
(3) Shares issued for brokered private placement	6,983,500		1,073,249		-
(3) Share issue costs	-		(153,330)		-
(3) Agents warrants	-		(19,479)		19,479
Share Issue costs -deferred acquisition expense	-		(138,219)		-
Cascade capital contribution	-		1,447,705		-
Balance September 30, 2010	37,504,958	$	2,721,123	$	19,479

(1) On September 3, 2010 23,761,458 common shares and 6,238,542 special warrants were issued for 100% of the equity in Cascade. Each warrant is convertible into one common shares of the Company with no additional consideration. The shares have been valued $126,988 and the special warrants at $33,341. These values together equal $160,329 which represents the fair value of Alaska Hydro at the transaction date.

(2) On September 3, 2010, the Company closed a non-brokered private placement issue of 2,500,000 Units at a price of C$0.16 per unit. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant entitles to holder, on exercise, to acquire one common share at a price of C$0.32 per common share until September 3, 2015. The equity financing raised gross and net proceeds of $384,209.

(3) On September 3, 2010, the Company closed a brokered private placement issue of 6,983,500 Units at a price of C$0.16 per unit. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant entitles to holder, on exercise, to acquire one common share at a price of C$0.32 per common share until September 3, 2015. The equity financing raised gross proceeds of $1,073,249 and net proceeds of $919,919 after share issue costs of $153,330. In addition, the Company issued an aggregate of 555,080 Agent's Warrants to the Agent and members of its selling group. Each Agent's Warrant entitles the holder, on exercise, to acquire one common share at a price of $0.16 per common share until September 3, 2012. In addition, the Agent receive a cash corporate finance fee and 93,750 corporate finance warrants, such warrants having the same terms as the Agent's Warrants.

(In US Funds)

5. SHARE CAPITAL (continued)

(b) Stock 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 stock 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.

On September 3, 2008, 400,000 options with an exercise price of $0.10 and a term of five years were granted to directors of the Company and 200,000 options with an exercise price of $0.10 and a term of two years were granted to the Company's agents in the course of closing the initial public offering. All of these options vested on grant.

The stock-based compensation related to these grants was estimated using the Black-Scholes option pricing model, using the following weighted average assumptions and results:

Expected life	4 years
Volatility	142%
Risk free interest rate	3%
Dividends	0%
Resulting fair value	$0.08

The current balance of outstanding options is as follows:

	Exercise Price	Remaining Contractual Life
Directors options	$ 0.10	400,000
Agents options		200,000
Balance April 30, 2010	$ 0.10	600,000
Exercised		(260,000)
Expired		(200,000)
Balance September 30, 2010		140,000

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

	Number Outstanding and Vested	Exercise Price	Remaining Contractual Life
Directors options	140,000	$ 0.10	2.9 years
Balance September 30, 2010	140,000	$ 0.10	2.9 years

(In US Funds)

5. SHARE CAPITAL (continued)

(c) Contributed Surplus:

Unit warrants (expire Sep 3, 2012)		19,479
Balance September 30, 2010	$	19,479

6. INCOME TAXES

Significant components of the Company's future income tax assets are shown below:

	September 30 2010	April 30 2010
Combined statutory tax rate	26% to 35%	26%
Canada non-capital loss carry forwards	$ 53,597	$ 29,226
United States non-capital loss carry forwards	202,879	-
Share issue costs	6,452	10,003
	$ 262,927	$ 39,229
Valuation allowance	(262,927)	(39,229)
Balance, end of period	$ -	$ -

As at September 30, 2010, the Company has approximately $206,000 (April 30, 2010: $112,500) of non-capital loss carry forwards available to reduce taxable income for future years in Canada. The Canadian loss carry forwards begin to expire in 2026 if unused.

As at September 30, 2010, the Company has approximately $579,500 of non-capital loss carry forwards available to reduce taxable United States income for future years.

In assessing future income tax assets, management considers whether it is more likely than not that some portion of all of the future income tax assets will not be realized. The ultimate realization of future income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of future income tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period.

7. MANAGEMENT OF CAPITAL

The Company's objectives 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, as a young venture issuer, has no practicable ability presently to raise money by long term or any kind of debt, for practical purposes all of its capital management is directed towards management of its issues of equity including warrants. There is thus very limited flexibility in its capital management.

8. FINANCIAL INSTRUMENTS AND RISK

Financial Instruments

As at September 30, 2010, the Company's financial instruments consist of cash and cash equivalents and accounts payable. The fair values of these financial instruments approximate their carrying values because of their current nature.

The Company classifies its cash and cash equivalents as held-for-trading and its accounts payable as other financial liabilities.

Liquidity Risk

The Company ensures its holding of cash is sufficient to meet its short-term general and administrative expenditures. All of the Company's 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.

Foreign Exchange Risk

The Company does monitor its foreign exchange risk. A significant portion of the Companys 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 September 30, 2010 and 2009. 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.

	2010	2009
Impact on net loss:		
1% increase	$ 8,100	$ 2,000
1% decrease	$ (8,100)	$ (2,000)

Fair Value

The Corporation classifies its fair value measurements in accordance with an established hierarchy that priorities 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

(In US Funds)

8. FINANCIAL INSTRUMENTS AND RISK (Continued)

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 2010
Cash and cash equivalents	$ 810,720	$ –	$ –	$ 810,720
	$ 810,720	$ –	$ –	$ 810,720

9. RELATED PARTY TRANSACTIONS

In addition to those transactions disclosed elsewhere in these financial statements, the Company had the following balances and transactions with related parties:

	Sep 30, 2010 Unaudited) $	Dec 31, 2009 (Audited) $	Dec 31, 2008 (Audited) $	Dec 31, 2007 (Audited) $
Due to Member (a)	-	7,500	-	-
Due to Related Party (b)	-	-	311,697	191,756
Consulting and Engineering Services Charged by Companies Controlled by a Member (c)	177,092	167,860	323,412	843,523

a) The loan from a Member of the Company is unsecured, bears interest at the prime rate, and is payable on demand.

b) The amounts due to a related company wholly owned by a Member, for consulting and engineering services, are unsecured, non-interest bearing, and have no specific terms of repayment. On December 31, 2009, the Company and the Member agreed to capitalize these amounts owing, totaling $342,465, as member's contributions.

c) For the year ended December 31, 2009, related companies charged the Company consulting and engineering fees totaling $167,860 (2008 – $323,412; 2007 – $843,523) for the Cascade Creek hydro electric projects. For the nine months ended September 30, 2010, related companies charged the Company consulting and engineering fees totaling $177,092. All related party transactions were in the normal course of operations and were measured at the fair value of services received as agreed to by the related parties.

10. 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 to purchase 1% of the net output from the Company for a period of 25 years at the break even production cost.

The City advanced a payment of $250,000 to the Company in 2009. In the event the Company defaults on any 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 Member 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.

11. SUBSEQUENT EVENTS

On December 1, 2010, pursuant to its Incentive Share Option Plan, the Company granted a total of 2,125,000 options to purchase the company's common shares to certain directors, officers, employees and consultants of the Company. The options were granted at a price of C$0.16 per share for a term of 5 years.

(In US Funds)

Schedule - Hydro Project Expenditures

	Cascade Creek $	Ruth Lake $	Scenery Lake $	Total $
Nine months ended September 30, 2010 (Unaudited)				
Consulting	1,976	575	375	2,926
Engineering Project Costs				
Environmental Studies	279,333	-	-	279,333
Preliminary Design	56,346	-	-	56,346
Scoping	13,816	-	-	13,816
Study Planning	38,545	-	-	38,545
License application	29,297	-	-	29,297
	419,313	575	375	420,263
Year ended December 31, 2009 (Audited)				
Consulting	39,427	20,560	3,810	63,797
Dues and Licenses	1,113	-	-	1,113
Engineering Project Costs				
Environmental Studies	40,607	-	-	40,607
Preliminary Design	3,345	-	-	3,345
Scoping	84,941	-	-	84,941
Study Planning	15,298	-	-	15,298
	184,731	20,560	3,810	209,101
Year ended December 31, 2008 (Audited)				
Consulting	205,729	26,490	11,451	243,670
Dues and Licenses	1,717	-	-	1,717
Engineering Project Costs				
Environmental Studies	75,960	-	-	75,960
Pre-Application Document and Notice of Intent	5,030	-	-	5,030
Preliminary Design	1,042	-	-	1,042
Scoping	5,150	-	-	5,150
Study Planning	49,000	-	-	49,000
	343,628	26,490	11,451	381,569
Year ended December 31, 2007 (Audited)				
Consulting	156,437	46,752	31,168	234,357
Engineering Project Costs				
Power Sales	115,200	-	-	115,200
Pre-Application Document and Notice of Intent	90,871	-	-	90,871
Preliminary Design	12,698	-	-	12,698
Preliminary Feasibility Study	129,600	-	-	129,600
Study Planning	10,268	-	-	10,268
Transmission Interconnectivity	273,600	-	-	273,600
Travel	4,430	-	-	4,430
	793,104	46,752	31,168	871,024

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ALASKA HYDRO CORPORATION
(formerly Project Finance Corp.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTH PERIODS ENDED

SEPTEMBER 30, 2010 AND 2009

As at December 3, 2010

The following management's discussion and analysis is for the three and nine months periods ended September 30, 2010 and 2009. This MD&A is as of December 3, 2010.

INTRODUCTION

The discussion and analysis of the operating results and financial position of Alaska Hydro Corporation ("the Company") should be read in conjunction with the attached Financial Statements and related Notes (the "Financial Statements"), which have been prepared in accordance with Canadian generally accepted accounting principles (GAAP and their related notes). All monetary amounts are expressed in United States dollars unless otherwise indicated in the notes to the financial statements. This discussion and analysis may contain forward-looking statements about the Company's future prospects, and the Company provides no assurance that actual results will meet management's expectations. Additional information relating to the Company is available on SEDAR at www.sedar.com.

DESCRIPTION OF BUSINESS

Alaska Hydro Corporation (the "Company") was incorporated on October 16, 2006 (as Project Finance Corp.) under the British Columbia Business Corporations Act. The Company's shares are listed on the TSX Venture Exchange (the "TSX-V") under the symbol "AKH" as a Tier 2 industrial issuer. Effective September 3, 2010, Project Finance Corp. changed its name to "Alaska Hydro Corporation". The Company commenced trading on the TSX-V as a Tier 2 Issuer on September 8, 2010 under its new name and trading symbol "AKH".

On September 3, 2010 the Company completed the acquisition of Cascade Creek LLC. ("Cascade"), the shareholders of Cascade own approximately 80% of the common shares of the Company. This transaction has been treated as a capital transaction in accordance with Emerging Issue Committee Abstract EIC-10, "Reverse Takeover Accounting". The equity accounts will be presented as a continuation of Cascade and accordingly, the shareholders' equity of the Company will be eliminated.

The Cascade Creek project is comprised of a proposed 70 MW lake siphon 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 190 GW.h per year renewable energy plus some storage capacity. The Cascade Creek project is part of the Thomas Bay Energy Development, 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.

The Company is in the development stage and its continuing operations are dependent upon its ability to develop the hydro electric project, to raise sufficient financing and to obtain the required licenses from the US Federal Energy Regulatory Commission ("FERC"). Upon receiving the FERC license, the Company may proceed to complete and construct the hydro electric project and to ultimately generate income and cash flows from operation of the project. The outcome of these matters cannot be predicted at this time.

On September 3, 2010 the Company completed its previously announced Qualifying Transaction. The Company acquired all of the issued and outstanding units of Cascade. The Company issued an aggregate of 22,636,458 common shares and 6,238,542 special warrants to the Vendors at a deemed price of $0.08 per common share or special warrant, as the case may be. Each special warrant is convertible into one common share for no additional consideration. The Vendors and the Company are at arm's length, accordingly the Qualifying Transaction was not a "Non-Arm's Length Qualifying Transaction". Upon completion of the Qualifying Transaction, the Company changed its name to "Alaska Hydro Corporation".

DESCRIPTION OF BUSINESS (Continued)

Of the 22,636,458 common shares and 6,238,542 special warrants issued to the Vendors, an aggregate of 28,875,000 common shares and special warrants are held in value escrow pursuant to the policies of the TSX-V. The remaining common shares subject to escrow will be released in 15% tranches in 6 month intervals thereafter. Of these securities, 6,000,000 common shares issued to certain of the Vendors are also subject to a performance escrow agreement.

Upon completion of the Qualifying Transaction, Cascade became a wholly-owned subsidiary of the Company, and the Company will carry on the business of Cascade. Further information regarding the business of Cascade can be found in the Company's filing statement which is available at www.sedar.com.

Concurrently with the closing of the Qualifying Transaction, the Company completed a financing (the "Brokered Financing") of 6,983,500 units ("Units") of the Company at a price of $0.16 per Unit for aggregate proceeds of $1,117,360. Each Unit is comprised of one Common Share of the Company and one Warrant. Each Warrant entitles to holder, on exercise, to acquire one Common Share at a price of $0.32 per common share until September 3, 2015. The Brokered Financing was conducted by way of Exchange Short Form Offering Document. In consideration for its services, Raymond James Ltd., the Agent, and members of its selling group received commission equal to 8% of the gross proceeds of the Brokered Financing. In addition, the Company issued an aggregate of 555,080 Agent's Warrants to the Agent and members of its selling group. Each Agent's Warrant entitles the holder, on exercise, to acquire one common share at a price of $0.16 per common share until September 3, 2012. In addition, the Agent receive a cash corporate finance fee and 93,750 corporate finance warrants, such warrants having the same terms as the Agent's Warrants.

In addition, concurrently with closing of the Qualifying Transaction, the Company completed a non-brokered private placement (the "Non-Brokered Financing") of 2,500,000 Units for aggregate proceeds of $400,000. No finder's fees or commissions were paid in connection with the Non-Brokered Financing. All of the common shares and Warrants issued under the Non-Brokered Financing are subject to a 4-month hold period expiring on January 4, 2011.

Upon completion of the Qualifying Transaction, Terry Martinich and Rany Ratushny resigned as directors of the Company. Thom Fischer, Steve Marmon, Stephen Kulin and Matthew Bell were appointed as directors of the Company. In addition, Cliff Grandison resigned as President and Chief Executive Officer and Rany Ratushny resigned as Chief Financial Officer. Thom Fischer was appointed as President and Chief Executive Officer, Len Schmidt was appointed as Chief Financial Officer, Michael Hoole as Corporate Secretary, Cliff Grandison as Chairman of the Board, Duff Mitchell as VP Business Development and Steve Marmon as VP Operations. Mr. Mitchell subsequently left the employment of the Company.

The filing statement of the Corporation dated July 22, 2010, which describes the terms of the Acquisition, was filed with the Exchange and applicable securities commissions and is available on SEDAR under the Corporations profile at www.sedar.com.

OVERALL PERFORMANCE

On September 3, 2010 the Company completed the acquisition of Cascade Creek LLC. ("Cascade"), the shareholders of Cascade own approximately 80% of the common shares of the Company. The Company is in the development stage and its continuing operations are dependent upon its ability to develop the hydro electric project, to raise sufficient financing and to obtain the required licenses from the US Federal Energy Regulatory Commission "FERC"). On September 3, 2010 the Company completed additional financings for net proceeds of $1,304,129. These funds are to be used to further the acquisition of required licences for its Cascade Creek hydroelectric project.

SELECTED ANNUAL INFORMATION

The table below present's selected financial data for the Company's three most recently completed years.

	Years ended December 31		
(In US $ except per share data)	2009	2008	2007
Total revenue	$ 23,275	$ -	$ -
Net loss and comprehensive loss	316,743	552,149	889,375
Basic and diluted loss per share (Shares used are the shares issued for acquisition at Sep 3, 2010, 23,761,458)	0.01	0.02	0.04
Hydro project expenditures	209,101	381,569	871,024
Total assets	60,660	54,704	-
Total long-term financial liabilities	250,000	-	-
Cash dividends declared per share	$ -	$ -	$ -

In 2007, 2008 and 2009, the Company raised funds to carry on its principle business, which was the Cascade Creek hydroelectric project. This is reflected in the expenditures outlines above for the 3 years. Net loss comprised mostly hydroelectric project expenditures in 2007, 2008 and 2009.

The selected financial data for these periods has been prepared in accordance with Canadian generally accepted accounting principles (GAAP and their related notes). All monetary amounts are expressed in US dollars unless otherwise indicated.

RESULTS OF OPERATIONS

Three months ended September 30, 2010 and 2009

Hydro project expenditures for the quarter ending September 30, 2010 were $189,783 compared with $nil during the same period in 2009. In 2009 the project expenditures were being capitalized, where $37,260 was incurred, still significantly reduced when compared to this quarter. This quarter has increased activity due to the license application work in Alaska's Thomas Bay. There was $655 interest income compared to $nil for the same period in 2009 which reflects a reduced cash balance in 2009. Expenses totalling $50,959 were incurred for legal, and accounting, during the three months ended September 30, 2010 compared to $7,885 during the same period of 2009. The current period has seen increased activity due to the Cascade merger. Wages and benefits expenditures of $23,279 were comparable to the same period on 2009 at $24,261. The cash balance of $810,720 is up significantly when compared to the December 31, 2009 balance at $24,650 due to the business combination and financing completed in September 2010.

Nine Months ended September 30, 2010 and 2009

Hydro project expenditures for the nine months ending September 30, 2010 were $420,263 compared with $nil during the same period in 2009. In 2009 the project expenditures were being capitalized. The capitalized amounts for the similar period were $113,706 spent, or $306,557 less when compared to this period. This current nine month period is significantly higher as the project is both nearing its licence application and the project has moved from the early scoping phase to the field study phase which demands increased spending. There was $655 interest income compared to $nil for the same period in 2009 which reflects a low cash balance during 2009. Expenses totalling $104,373 were incurred for legal, and accounting, during the nine months ended September 30, 2010 compared to $16,166 during the same period of 2009. The current period has seen increased activity due to the Cascade merger. Wages and benefits expenditures of $60,625 were comparable to the same period on 2009 at $70,579.

SUMMARY OF QUARTERLY RESULTS

The table below present's selected financial data for the Company's eight most recently completed quarters.

(In US $ except per share data)

	Years ended Dec 31							
	2010			2009				2008
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial Results								
Interest income	655	-	-	-	-	-	-	-
Net income (loss) for period	294,660	181,826	155,496	105,699	33,987	27,278	42,137	(396,958)
Per share (Acquisition shares used)	$0.01	$0.01	$0.01	$0.00	$0.00	$0.00	$0.00	$(0.02)
Balance Sheet Data								
Cash and cash equivalents	810,270	10,139	10,326	24,650	658	5,411	82,540	35,484
Total assets	852,427	29,181	35,352	60,660	138,208	122,668	135,902	54,704
Shareholder's equity	519,749	(620,673)	(438,848)	(305,109)	(189,688)	(155,701)	(128,423)	(336,286)

LIQUIDITY AND SOLVENCY

As at September 30, 2010, the Company has a working capital surplus of $769,747.

CAPITAL RESOURCES

The Company has recently completed a financing concurrent with the Qualifying Transaction with Cascade. See description of business.

NEW AND RECENT ACCOUNTING PRONOUNCEMENTS

New Accounting Pronouncements

a) Goodwill and intangible assets

CICA Handbook Section 3064 – Goodwill and other intangibles assets. This new section replaces Section 3062, "Goodwill and other intangible assets" and Section 3450, "Research and development costs". It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. The Company adopted the new standard for its fiscal year beginning January 1, 2009.

Management has determined that the adoption of this new standard will not have a material impact on the Company's financial statements.

NEW AND RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

Recent Accounting Pronouncements

a) Business Combinations

Business Combinations" and 1600 "Consolidated Financial Statements". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. These Sections are applicable for interim and annual consolidated financial statements for fiscal years beginning January 1, 2011. Early adoption of these Sections is permitted and all these Sections must be adopted concurrently. The Company is evaluating this new standard at this time.

Recent Accounting Pronouncements - ***Continued***

b) International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board (AcSB) has announced its decision to replace Canadian GAAP with International Financial Reporting Standards ("IFRS") for all Canadian Publicly Accountable Enterprises ("PAEs"). The effective changeover date is January 1, 2011, at which time Canadian GAAP will cease to apply for the Company and will be replaced by IFRS. Following this timeline, the Company will issue its first set of consolidated interim financial statements prepared under IFRS in the first quarter of 2011 ending March 31, 2011 including comparative IFRS financial results and an opening consolidated balance sheet as at January 1, 2011. The first annual IFRS financial statements will be prepared for the year ended December 31, 2011 with restated comparatives for the year ended December 31, 2010.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

In addition to those transactions disclosed elsewhere in these financial statements, the Company had the following balances and transactions with related parties:

	Sep 30, 2010 Unaudited) $	Dec 31, 2009 (Audited) $	Dec 31, 2008 (Audited) $	Dec 31, 2007 (Audited) $
Due to Member (a)	-	7,500	-	-
Due to Related Party (b)	-	-	311,697	191,756
Consulting and Engineering Services Charged by Companies Controlled by a Member (c)	177,092	167,860	323,412	843,523

RELATED PARTY TRANSACTIONS (Continued)

a) The loan from a Member of the Company is unsecured, bears interest at the prime rate, and is payable on demand.

b) The amounts due to a related company wholly owned by a Member, for consulting and engineering services, are unsecured, non-interest bearing, and have no specific terms of repayment. On December 31, 2009, the Company and the Member agreed to capitalize these amounts owing, totaling $342,465, as member's contributions.

c) For the nine months ended September 30, 2010, related companies charged the Company consulting and engineering fees totaling $177,092. For the year ended December 31, 2009, related companies charged the Company consulting and engineering fees totaling $167,860 (2008 – $323,412; 2007 – $843,523) for the Cascade Creek hydro electric projects. All related party transactions were in the normal course of operations and were measured at the fair value of services received as agreed to by the related parties.

OUTSTANDING SHARE DATA

On September 3, 2010 23,761,458 common shares and 6,238,542 special warrants were issued for 100% of the equity in Cascade. Each warrant is convertible into one common shares of the Company with no additional consideration. The shares have been valued $126,988 and the special warrants at $33,341. These values together equal $160,329 which represents the fair value of Alaska Hydro at the transaction date.

On September 3, 2010, the Company closed a non-brokered private placement issue of 2,500,000 Units at a price of C$0.16 per unit. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant entitles to holder, on exercise, to acquire one common share at a price of C$0.32 per common share until September 3, 2015. The equity financing raised gross and net proceeds of $384,209.

On September 3, 2010, the Company closed a brokered private placement issue of 6,983,500 Units at a price of C$0.16 per unit. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant entitles to holder, on exercise, to acquire one common share at a price of C$0.32 per common share until September 3, 2015. The equity financing raised gross proceeds of $1,073,249 and net proceeds of $919,919 after share issue costs of $153,330. In addition, the Company issued an aggregate of 555,080 Agent's Warrants to the Agent and members of its selling group. Each Agent's Warrant entitles the holder, on exercise, to acquire one common share at a price of $0.16 per common share until September 3, 2012. In addition, the Agent receive a cash corporate finance fee and 93,750 corporate finance warrants, such warrants having the same terms as the Agent's Warrants.

As at the date of this MD&A, there are 37,504,958 common shares outstanding.

INCOME TAXES

Significant components of the Company's future income tax assets are shown below:

	September 30 2010	April 30 2010
Combined statutory tax rate	26% to 35%	26%
Canada non-capital loss carry forwards	$ 53,597	$ 29,226
United States non-capital loss carry forwards	202,879	-
Share issue costs	6,452	10,003
	$ 262,927	$ 39,229
Valuation allowance	(262,927)	(39,229)
Balance, end of period	$ -	$ -

As at September 30, 2010, the Company has approximately $206,000 (April 30, 2010: $112,500) of non-capital loss carry forwards available to reduce taxable income for future years in Canada. The Canadian loss carry forwards begin to expire in 2026 if unused.

As at September 30, 2010, the Company has approximately $579,500 of non-capital loss carry forwards available to reduce taxable United States income for future years.

In assessing future income tax assets, management considers whether it is more likely than not that some portion of all of the future income tax assets will not be realized. The ultimate realization of future income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of future income tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period

RISKS AND UNCERTAINTIES

Except for historical information contained in this discussion and analysis, disclosure statements contained herein are forward-looking, which statements are subject to risks and uncertainties, which could cause actual results to differ materially from those in such forward-looking statements.

As at September 30, 2010, the Company is in the development stage and its continuing operations are dependent upon its ability to develop the hydro electric project, to raise sufficient financing and to obtain the required licenses from the US Federal Energy Regulatory Commission ("FERC"). Upon receiving the FERC license, the Company may proceed to complete and construct the hydro electric project and to ultimately generate income and cash flows from operation of the project. The outcome of these matters cannot be predicted at this time.

SUBSEQUENT EVENTS

On December 1, 2010, pursuant to its Incentive Share Option Plan, the Company granted a total of 2,125,000 options to purchase the company's common shares to certain directors, officers, employees and consultants of the Company. The options were granted at a price of C$0.16 per share for a term of 5 years.