



ALASKA HYDRO CORPORATION
(formerly Project Finance Corp.)

CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEARS
ENDED DECEMBER 31, 2010 AND 2009**



INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Alaska Hydro Corporation (formerly Project Finance Corp.)

We have audited the accompanying consolidated financial statements of Alaska Hydro Corporation (formerly Project Finance Corp.) which comprise the consolidated balance sheets as at December 31, 2010, and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the year then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained based on our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Alaska Hydro Corporation (formerly Project Finance Corp.) as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Other Matter

The consolidated financial statements of Alaska Hydro Corporation (formerly Project Finance Corp.) presented as comparative figures for the year ended December 31, 2009, are comprised of the assets and operations of Cascade Creek, LLC as explained in Notes 1 and 2, which were audited by another firm of auditors that expressed an unmodified opinion on those statements in their audit report dated March 27, 2010 (except as to Note 7(b) which was as of June 14, 2010).

Manning Elliott LLP

CHARTERED ACCOUNTANTS

Vancouver, British Columbia

April 28, 2011

Alaska Hydro Corporation (formerly Project Finance Corp.)

Consolidated Balance Sheets

As at December 31, 2010 and 2009

(in US Dollars)

	2010		2009	
ASSETS				
Current assets:				
Cash and cash equivalents	\$	193,658	\$	24,650
Amounts receivable		35,166		–
Prepaid expenses and deposits		13,355		19,600
		242,179		44,250
Equipment (Note 4)		19,954		16,410
	\$	262,133	\$	60,660
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	\$	289,526	\$	83,724
Convertible debentures (Note 6)		–		24,545
Due to related parties (Note 11)		96,402		7,500
		385,928		115,769
Unearned income (Note 12)		250,000		250,000
Shareholders' equity:				
Equity component of convertible debenture (Note 6)		–		5,455
Share capital (Note 7)		2,825,860		1,447,703
Contributed surplus (Note 7)		272,450		–
Deficit		(3,472,105)		(1,758,267)
		(373,795)		(305,109)
	\$	262,133	\$	60,660

Nature of Operations and Going Concern (Note 1)

Commitments (Note 12)

Subsequent Events (Note 13)

On behalf of the Board:

Signed "*Clifford Grandison*"_____
DirectorSigned "*M.E. Hoole*"_____
Director

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

Alaska Hydro Corporation (formerly Project Finance Corp.)
Consolidated Statements of Operations, Comprehensive Loss and Deficit
For the Years ended December 31, 2010 and 2009
(in US Dollars)

	2010	2009
Hydro project expenditures	\$ 1,193,269	\$ 209,101
General and administrative:		
Amortization	5,779	2,810
Investor relations	4,442	-
Office administration	35,538	20,191
Professional fees	182,646	16,836
Stock-based compensation	205,388	-
Transfer agent, filing and sustaining fees	20,742	-
Wages and benefits	60,875	91,080
	515,410	130,917
Loss before other items	1,708,679	340,018
Other income:		
Interest and other income	1,799	23,275
Foreign exchange gain	11,071	-
Net loss and comprehensive loss for the year	(1,695,809)	(316,743)
Deficit, beginning of year	(1,758,267)	(1,441,524)
Net obligations assumed in reverse takeover (Note 2)	(18,029)	-
Deficit, end of year	\$ (3,472,105)	\$ (1,758,267)
Net loss per share – basic and diluted	\$ (0.14)	\$ -
Weighted average shares outstanding	12,230,397	-

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

Alaska Hydro Corporation (formerly Project Finance Corp.)

Consolidated Statements of Cash Flows

For the Years ended December 31, 2010 and 2009

(in US Dollars)

	2010	2009
Cash flows provided by (used in):		
Operating activities:		
Loss for the year	\$ (1,695,809)	\$ (316,743)
Item not affecting cash:		
Amortization	5,779	2,810
Stock-based compensation	205,388	–
	(1,484,642)	(313,933)
Changes in non-cash working capital items:		
Amounts receivable and prepaid expenses	(15,029)	(19,600)
Accounts payable and accrued liabilities	173,881	35,199
Cash used in operating activities	(1,325,790)	(298,334)
Financing activities:		
Shares issued for cash	1,457,458	–
Share issue costs	(161,910)	–
Proceeds from convertible debentures	119,671	30,000
Loans from related parties	88,902	7,500
Unearned income	–	250,000
Cash provided by financing activities	1,504,121	287,500
Investing activities:		
Purchase of equipment	(9,323)	–
Cash used in investing activities	(9,323)	–
Increase (decrease) in cash and cash equivalents during the year	169,008	(10,834)
Cash and cash equivalents, beginning of year	24,650	35,484
Cash and cash equivalents, end of year	\$ 193,658	\$ 24,650

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

Alaska Hydro Corporation (formerly Project Finance Corp)

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2010 and 2009
(In US Dollars)

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 (“CPC”) as defined in Policy 2.4 of the TSX Venture Exchange (the “Exchange”). On that date 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 September 3, 2010 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”. As disclosed in Note 2, this transaction has been accounted for as a reverse takeover of the Company by Cascade. Accordingly, the balances and transactions reported for the 2009 comparative figures are those of Cascade. The balances and transactions reported for 2010 are comprised of Cascade’s operations for 2010 and those of Alaska Hydro (formerly Project Finance Corp.) for the period from September 3, 2010 to December 31, 2010.

The Company incurred a net loss of \$1,695,809 (2009 - \$316,743) for the year ended December 31, 2010 and had an accumulated deficit of \$3,472,105 (2009 - \$1,758,267) at December 31, 2010 which has been funded primarily by the issuance of equity. The Company is in the development stage and its ability to continue as a going concern is 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 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.

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 been successful in raising 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. Subsequent to the year end the Company issued an aggregate of C\$254,000 of Convertible Debentures in several tranches (Note 13).

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.

2. REVERSE TAKEOVER TRANSACTION

On September 3, 2010 Alaska Hydro acquired all of the outstanding capital of Cascade from its owners, through the issuance of an aggregate of 23,761,458 common shares and 6,238,542 special warrants of Alaska Hydro, resulting in Alaska Hydro owning all of Cascade. Each special warrant is convertible into one common share for no additional consideration. Concurrent with this acquisition the Company completed a brokered financing and a non-brokered financing (Note 7).

Although the transaction resulted in Cascade becoming a wholly-owned subsidiary of Alaska Hydro, the transaction constitutes a reverse takeover of Alaska Hydro and was accounted for as a capital transaction rather, than a business combination, in accordance with Canadian Institute of Chartered Accountants (“CICA”) Emerging Issues Committee Abstract No. 10 – *Reverse Takeover Accounting*.

These financial statements are deemed to be a continuation of the assets, operations, and capital of Cascade and they have been presented as if Cascade had acquired the net assets of Alaska Hydro in a capital transaction followed by a financing transaction. The share capital presented reflects the capital of Cascade prior to the acquisition together with the share structure of the Company after the transaction.

Alaska Hydro Corporation (formerly Project Finance Corp)

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2010 and 2009
(In US Dollars)

2. REVERSE TAKEOVER TRANSACTION (continued)

The net assets and obligations assumed on September 3, 2010 for financial statement presentation purposes were as follows:

Assets acquired		
Amounts receivable	\$	13,892
Other current assets		10,870
		<hr/>
		24,762
Liabilities assumed		
Accounts payable and accrued liabilities		(42,791)
Net obligations assumed	\$	<hr/>
		(18,029)

The net obligations assumed were charged to deficit on the acquisition date.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation and Consolidation

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”), are expressed in US dollars and include the accounts of the Company, and its wholly owned subsidiary, Cascade Creek LLC (“Cascade”). All inter-company transactions have been eliminated.

b) Equipment

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.

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.

e) Foreign Currency Translation

Transactions in foreign currencies, such as Canadian dollars, are translated into US dollars at the exchange rates in effect on the transaction dates using the temporal method. Monetary balance sheet items denominated in foreign currencies are translated into US dollars at the exchange rates in effect at the balance sheet date. The resulting exchange gains and losses are recognized in income.

Alaska Hydro Corporation (formerly Project Finance Corp)

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2010 and 2009
(In US Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

g) Income Taxes

Prior to 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 Cascade was treated as a flow through entity for U.S. tax purposes. As a result, no provision for income taxes has been included in these financial statements for that period.

Effective January 1, 2010 Cascade was granted status as an association taxable as a corporation. As a result, income taxes are accounted for using the liability method subsequent to January 1, 2010. Under this method current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities. Future 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. A valuation allowance is recorded against any future income tax asset if it is not more likely than not that 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 2010, basic and diluted net loss per share are the same because the outstanding options and warrants are anti-dilutive.

No loss per share information has been presented for the 2009 comparative year as these figures represent the assets and operations of Cascade Creek LLC, which did not have share capital separated into discrete shares.

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.

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.

Alaska Hydro Corporation (formerly Project Finance Corp)

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2010 and 2009
(In US Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) 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, expected future tax rates and the utilization of future 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 stock-based compensation transactions. Financial results as determined by actual events could differ from those estimates.

l) Financial Instruments

All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, available for sale, held to maturity, loans and receivables, or other financial liabilities.

Financial assets and liabilities classified as held for trading are measured at fair value, with gains and losses recognized in net earnings. Available for sale financial assets with quoted market prices are measured at fair value, with unrealized gains and losses recognized in other comprehensive income. Investments in equity instruments classified as available for sale that do not have quoted market prices in an active market are measured at cost.

Financial assets classified as held to maturity and loans and receivables are measured at amortized cost using the effective interest rate method of amortization. Financial liabilities classified as other financial liabilities are measured at amortized cost using the effective interest method of amortization.

The Company has classified its financial instruments as follows:

- a) Cash and cash equivalents are classified as held-for-trading; and
- b) Accounts payable and amounts due to related parties are classified as other financial liabilities.

m) Comparative Figures

Certain of the 2009 figures presented for comparative purposes have been reclassified to conform with the presentation adopted in the current year.

n) Recent Accounting Pronouncements - International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board confirmed that publicly accountable entities will be required to prepare financial statements in accordance with IFRS for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. Companies will have to provide comparative IFRS information for the previous fiscal year.

The process of changing from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect reported financial position and results of operations, and may also affect certain business functions. 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. The transition from current Canadian GAAP to IFRS will be applicable for the Company for the first quarter of 2011 when the Company will report both the current and comparative information using IFRS.

Alaska Hydro Corporation (formerly Project Finance Corp)

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2010 and 2009
(In US Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Recent Accounting Pronouncements - Business Combinations and Consolidated Financial Statements

In January 2009, the CICA issued Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combination and related disclosures. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier adoption permitted. The Company does not expect that the adoption of this standard will have a material impact on the Company's financial statements.

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, and 1602, Non-controlling interests, which replaces existing guidance. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period on or after January 2011 with earlier adoption permitted. The Company does not expect that the adoption of this standard will have a material impact on the Company's financial statements.

4. EQUIPMENT

	Cost \$	Accumulated Amortization \$	Net Book Value \$
December 31, 2010 Equipment	29,012	9,058	19,954
December 31, 2009 Equipment	19,689	3,279	16,410

5. POWER PROJECT DEVELOPMENT COSTS

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 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.

Cascade Creek

The Company has 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 the licensing phase of the application process with FERC. The permit expires on February 14, 2011.

Cascade also filed a subsequent third preliminary permit application with FERC to further protect the Company's status with respect to the FERC process between now and issuance of a FERC license for the project. (Note 13).

Alaska Hydro Corporation (formerly Project Finance Corp)

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2010 and 2009
(In US Dollars)

5. POWER PROJECT DEVELOPMENT COSTS (continued)

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, depending 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, depending on subsequent license renewals.

The Company has incurred the following costs related to these power projects, all of which have been expensed in accordance with the Company's accounting policy outlined in Note 3(d):

Alaska Hydro Corporation (formerly Project Finance Corp)

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2010 and 2009
(In US Dollars)

5. POWER PROJECT DEVELOPMENT COSTS (continued)

	Cascade Creek	Ruth Lake	Scenery Lake	Total
	\$	\$	\$	\$
Year ended December 31, 2007				
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
Year ended December 31, 2008				
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, 2009				
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, 2010				
Consulting	2,755	575	375	3,705
Engineering Project Costs				
Environmental Studies	813,694	-	-	813,694
Preliminary Design	135,238	-	-	135,238
Scoping	32,874	-	-	32,874
Study Planning	75,138	-	-	75,138
License application	132,620	-	-	132,620
	1,192,319	575	375	1,193,269
	2,513,782	94,377	46,804	2,654,963

Alaska Hydro Corporation (formerly Project Finance Corp)

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2010 and 2009
(In US Dollars)

6. CONVERTIBLE DEBENTURE

The Company issued convertible debentures totalling \$30,000 in 2009. It also issued an additional \$119,671 in convertible debentures in 2010. All of these debentures were to mature approximately nine months following their issue date, were interest bearing at 10% compounded and payable semi-annually, and were unsecured. The conversion feature allowed the debenture holders to convert the debenture to common shares of the Company at the time of closing the transaction described in Note 2, at a conversion price which resulted in an additional 1,875,000 shares being issued to the debenture holders as outlined in the table in Note 7(b). The conversion feature for the debenture outstanding at December 31, 2009 was estimated to be \$5,455 using the residual method, and this amount has been recognized as a separate component of share holders' equity at December 31, 2010.

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, 2008	–	\$ 1,105,238	\$ –
Members' Contributions	–	342,465	–
Balance December 31, 2009	–	1,447,703	–
Recognition of Alaska Hydro share structure	4,260,000	–	–
Shares issued on conversion of Cascade debentures	1,875,000	149,671	–
(1) Shares issued on reverse takeover by Cascade	21,886,458	–	–
(2) Shares issued for non-brokered private placement of units at \$0.1537 (C\$0.16) per unit	2,500,000	384,209	–
(3) Shares issued for brokered private placement	6,983,500	1,073,249	–
(3) Share issue costs	–	(161,910)	–
(3) Agents' and corporate finance warrants	–	(67,062)	67,062
Options granted (Note 6(e))	–	–	205,388
Balance December 31, 2010	37,504,958	\$ 2,825,860	\$ 272,450

(1) On September 3, 2010 23,761,458 common shares and 6,238,542 special warrants were issued for 100% of Cascade. Each warrant is convertible into one common share of the Company for no additional consideration. This transaction resulted in a reverse takeover that was a capital transaction in substance (Note 2). Of the 23,761,458 common shares and 6,238,542 special warrants issued, an aggregate of 28,750,000 common shares and special warrants are subject to escrow agreements pursuant to the policies of the Exchange. Under the escrow agreements, 10% of the common shares were released upon closing of the transaction with the remaining common shares to be released in 15% tranches in 6 month intervals thereafter. Of these securities, 6,000,000 common shares issued to certain of the unit-holders are also subject to a performance escrow agreement.

(2) On September 3, 2010, the Company closed a non-brokered private placement of 2,500,000 units at \$0.1537 (C\$0.16) per unit. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder, on exercise, to acquire one additional common share at an exercise price of \$0.3074 (C\$0.32) until September 3, 2015. No proceeds from the issuance of these units was allocated to the warrants as the warrants did not have intrinsic value at the time the units were issued. The equity financing raised net proceeds of \$384,209. No finder's fees or commissions were paid in connection with this non-brokered private placement. These common shares and any additional common shares issued from exercise of these warrants will be subject to escrow arrangements similar to those outlines in (1) above. The warrants are subject to a 4 month hold period expiring January 4, 2011.

Alaska Hydro Corporation (formerly Project Finance Corp)

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2010 and 2009
(In US Dollars)

7. SHARE CAPITAL (continued)

⁽³⁾ On September 3, 2010, the Company closed a brokered private placement of 6,983,500 units at a price of \$0.1537 (C\$0.16) per unit for gross proceeds of \$1,073,249. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder, on exercise, to acquire one additional common share at an exercise price of \$0.3074 (C\$0.32) until September 3, 2015. No proceeds from the issuance of these units was allocated to the warrants as the warrants did not have intrinsic value at the time the units were issued. The Company paid share issuance costs of \$161,910 in connection with this placement. The Company also issued 555,080 agents' warrants and 93,750 corporate finance warrants. Each warrant entitles the holder, on exercise, to acquire one additional common share at an exercise price of \$0.1537 (C\$0.16) until September 3, 2012.

(c) Shares Held in Escrow:

At December 31, 2010, 21,733,683 of the issued and outstanding common shares were held in escrow. See Note 7(b)(1) and 7(b)(2) for escrow terms.

(d) Warrants:

The current balance of outstanding warrants is as follows:

	Weighted Average Exercise Price (C\$)	Warrants
Balance December 31, 2008 and 2009	\$ -	-
Issued	0.19	16,370,872
Exercised	-	-
Expired	-	-
Balance December 31, 2010	\$ 0.19	16,370,872

The warrants issued and outstanding as at December 31, 2010 are as follows:

Expiration Date	Outstanding	Weighted Average Exercise Price (C\$)
September 3, 2012	648,830	\$ 0.16
September 3, 2015	9,483,500	0.32
No expiration	6,238,542	-
Balance December 31, 2010	16,370,872	\$ 0.19

On September 3, 2010, 648,830 agents' and corporate finance warrants with an exercise price of \$0.16 and a term of two years were issued as part of the costs of the brokered private placement (Note 7(b)(3)).

The fair value of these warrants issued was \$0.11 and was estimated using the Black-Scholes option pricing model, using the following weighted average assumptions and results:

Expected life	2 years
Volatility	137.2%
Risk free interest rate	1.37%
Dividends	0%

Alaska Hydro Corporation (formerly Project Finance Corp)

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2010 and 2009
(In US Dollars)

7. SHARE CAPITAL (continued)

(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.

The current balance of outstanding options is as follows:

	Weighted Average Exercise Price (C\$)	Options
Balance December 31, 2008 and 2009	\$ -	-
Assumed September 3, 2010	0.10	140,000
Granted	0.16	2,125,000
Balance December 31, 2010	\$ 0.16	2,265,000

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	2.7 years
December 1, 2015	2,058,334	2,125,000	0.16	4.9 years
Balance December 31, 2010	2,198,334	2,265,000	\$ 0.16	4.8 years

On December 1, 2010, 2,125,000 options with an exercise price of \$0.16 and a term of five years were granted to directors and consultants of the Company.

The stock-based compensation related to these grants had a fair value of \$0.10 per option and were estimated using the Black-Scholes option pricing model, using the following weighted average assumptions and results:

Expected life	5 years
Volatility	130.8%
Risk free interest rate	2.44%
Dividends	0%

Alaska Hydro Corporation (formerly Project Finance Corp)

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2010 and 2009
(In US Dollars)

8. INCOME TAXES

The following table reconciles the amount of income tax recoverable on application of the US combined statutory federal and state income tax rates:

	2010	2009
Combined statutory tax rate	34%	–
Income tax recovery on net loss at statutory rate	\$ 576,576	\$ –
Permanent differences and other	77,393	–
Reduction in tax recovery due to lower taxes in Canada	(20,658)	–
Difference between current and future rate	(16,635)	–
	\$ 616,676	\$ –
Valuation allowance	(616,676)	–
Income tax recovery	\$ –	\$ –

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

	2010	2009
Non-capital loss carry forwards	\$ 547,060	\$ –
Share issuance costs	69,616	–
	\$ 616,676	\$ –
Valuation allowance	(616,676)	–
Balance, end of year	\$ –	\$ –

As at December 31, 2010, the Company has approximately \$393,000 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 2028 if unused.

As at December 31, 2010, the Company has approximately \$1,413,000 of non-capital loss carry forwards available to reduce taxable income for future years in the United States. The US loss carry forwards begin to expire in 2030 if unused.

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.

Alaska Hydro Corporation (formerly Project Finance Corp)

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2010 and 2009
(In US Dollars)

9. 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, is a development stage venture issuer, has limited ability presently to raise money by long term or any other kind of debt, for practical purposes all of its capital management is directed towards management of its issues of equity including warrants (Note 13). There is thus very limited flexibility in its capital management.

10. FINANCIAL INSTRUMENTS AND RISK

Financial Instruments

As at December 31, 2010, the Company's financial instruments consist of cash and cash equivalents, accounts payable and amounts due to related parties. 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 and amounts due to related parties as other financial liabilities.

Liquidity Risk

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.

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 been successful in raising 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. Subsequent to the year end the Company issued an aggregate of C\$254,000 of Convertible Debentures in several tranches (Note 13).

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 December 31, 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	\$ 1,900	\$ 250
1% decrease	\$ (1,900)	\$ (250)

Alaska Hydro Corporation (formerly Project Finance Corp)

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2010 and 2009
(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 2010
Cash and cash equivalents	\$ 193,658	\$ -	\$ -	\$ 193,658
	\$ 193,658	\$ -	\$ -	\$ 193,658

11. RELATED PARTY TRANSACTIONS AND BALANCES

a) Due to Related Parties

As at December 31, 2010, the Company has accrued \$96,402 (2009 - \$7,500) due to directors and companies controlled by directors or officers of the Company for legal, accounting and consulting services described in Note 10(b). The amounts are non-interest bearing, unsecured and due on demand.

b) Transactions with Related Parties

During the years ended December 31, 2010 and 2009, the Company had the following related party transactions:

- i) For the year ended December 31, 2010, the Company paid or incurred a total of \$33,860 (2009 - \$Nil) to a director for legal services and to a company controlled by an officer for accounting services.
- ii) For the year ended December 31, 2010, the Company paid or incurred a total of \$258,527 (2009 - \$167,860) to a company controlled by a director for consulting and engineering services relating to the Cascade Creek hydro electric project.
- iii) For the year ended December 31, 2010, the Company paid or incurred a total of \$13,000 (2009- \$Nil) to two directors for management services.

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.

Alaska Hydro Corporation (formerly Project Finance Corp)

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2010 and 2009
(In US Dollars)

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 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 director of the Company 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

Subsequent to year end, the Company announced that Cascade, its wholly owned subsidiary, issued its Draft License Application ("DLA") for the proposed 70MW Cascade Creek Hydroelectric Project at Thomas Bay, Alaska. Issuance of the DLA initiates the 90-day review period as required by the FERC licensing process, whereby resource agencies, native groups, and other interested parties have an opportunity to review and comment on the application.

Cascade has also filed with FERC a subsequent third preliminary permit application to further protect the Company's status with respect to the FERC process between now and issuance of a FERC license for the project.

Subsequent to the year end, the Company issued an aggregate of C\$254,000 of Convertible Debentures in several tranches. The Convertible Debentures will mature on the date that is three years from the date of issuance and bear interest at 12% per annum, payable semi-annually. The principal amount of the Convertible Debentures is convertible into common shares of the Company, at any time from the date of issuance until the maturity date, at a price equal to C\$0.16 per common share. The Company may elect to pay accrued interest 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. In addition, the Company may elect to redeem the Convertible Debentures at any time prior to the Maturity Date.

The Company paid finder's fees and commissions in connection with these Convertible Debentures of C\$5,450 and 23,125 warrants with a two year term, exercisable at C\$0.16.