



**ALASKA HYDRO CORPORATION**  
(formerly Project Finance Corp.)

**MANAGEMENT'S DISCUSSION AND  
ANALYSIS**

**FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2011 AND 2010**

As at November 21, 2011

**Alaska Hydro Corporation** (formerly Project Finance Corp.)  
Management's Discussion and Analysis  
For the Three and Nine Months ended September 30, 2011 and 2010  
(In US Funds, unless otherwise indicated)

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The following management's discussion and analysis is for the three and nine months ended September 30, 2011 and 2010. This MD&A is as of November 21, 2011.

**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 Consolidated Financial Statements and related Notes (the "Financial Statements"). These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, we have commenced reporting on this basis in these consolidated financial statements. In these consolidated financial statements and in this MD&A, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS. 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](http://www.sedar.com) and at [www.alaskahydro.com](http://www.alaskahydro.com).

**DESCRIPTION OF BUSINESS**

The Company was incorporated on October 16, 2006 (as Project Finance Corp.) under the British Columbia Business Corporations Act. Effective September 3, 2010, Project Finance Corp. changed its name to "Alaska Hydro Corporation". The Company commenced trading on the TSX Venture Exchange (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"), which reflects the shareholders of Cascade owning 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 204 GW.h per year of renewable energy plus some storage capacity. The Cascade Creek project is part of the Thomas Bay project initiative, which consists of three potential hydro electric facility sites – Cascade Creek, Ruth Lake, and Scenery Lake that would all share transmission lines from Thomas Bay to Petersburg, Alaska.

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 by issuing an aggregate of 23,761,458 common shares and 6,238,542 special warrants 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. Cascade 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".

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### **DESCRIPTION OF BUSINESS (Continued)**

Of the 23,761,458 common shares and 6,238,542 special warrants issued to the Vendors, an aggregate of 12,530,359 common shares are held in value escrow pursuant to the policies of the TSX-V at September 30, 2011. The remaining common shares subject to escrow will be released in 15% tranches in 6 month intervals thereafter commencing September 7, 2011. 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](http://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 C\$0.16 per Unit for aggregate proceeds of C\$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 C\$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 C\$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 C\$400,000. No finder's fees or commissions were paid in connection with the Non-Brokered Financing.

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](http://www.sedar.com).

### **OVERALL PERFORMANCE**

On September 3, 2010 the Company completed the acquisition of 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 FERC. On September 3, 2010 the Company completed additional financings for net proceeds of C\$1,295,548. These funds are to be used to further the acquisition of required licences for its Cascade Creek hydroelectric project.

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**SELECTED ANNUAL INFORMATION**

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

<i>(In US \$ except per share data)</i>	Years ended December 31		
	2010	2009	2008
Other income	\$ 1,799	\$ 23,275	\$ -
Net loss and comprehensive loss	1,695,809	316,743	552,149
Basic and diluted loss per share <sup>(1)</sup>	0.14	-	-
Hydro project expenditures	1,193,269	209,101	381,569
Total assets	262,133	60,660	54,704
Total long-term financial liabilities	250,000	250,000	-
Cash dividends declared per share	\$ -	\$ -	\$ -

<sup>(1)</sup> No loss per share information has been presented for the 2009 and 2008 comparative year as these figures represent the assets and operations of Cascade Creek LLC, which did not have share capital separated into discrete shares

In 2008, 2009 and 2010, the Company raised funds to carry on its principal 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 2008, 2009 and 2010.

The selected financial data for these periods has been prepared in accordance with Canadian GAAP. All monetary amounts are expressed in US dollars unless otherwise indicated. In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011 and show comparative numbers for 2010. Accordingly, we have commenced reporting on this basis. The comparative 2010 numbers under IFRS numbers have not changed in the above schedule.

**RESULTS OF OPERATIONS**

Three months ended September 30, 2011 and 2010:

Hydro project expenditures for the quarter ending September 30, 2011 are \$37,443 compared with \$189,783 during the same period in 2010. In Q3 2011 preliminary design expenditures are \$Nil vs \$43,031 in the same period of 2010. Environmental studies are lower by \$100,438 at \$17,630 when compared to the same quarter last year; no new field investigations have been undertaken in this current quarter. License application monitoring and response expenditure was \$19,813 (2010 -\$29,297)

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#### **RESULTS OF OPERATIONS (continued)**

General and Administrative expenditures for the three months ending September 30, 2011 are \$132,327 (2010 - \$105,532). Wages and benefits expenditures of \$Nil are reduced compared to \$23,279 for the same quarter in 2010. These wages and benefits expenses, rather than being reduced to \$Nil are currently accounted for in the professional fees category. Expenses totalling \$72,359 are incurred for legal, and accounting and management consulting fees during the three months ended September 30, 2011 compared to \$50,959 during the same period of 2010. The 2010 wages and benefits netted with 2010 professional fees are comparable to the 2011 professional fees. Stock based compensation expense totalling \$28,388 (\$Nil-2010) in Q3 is employees, directors and consultants stock option valuation allocation. Accretion and Interest on convertible debentures was \$10,952 for the third quarter compared to \$Nil for the same period in 2010. Transfer agent, filing and sustaining fees are \$8,674 (\$11,139-2010) which is slightly down due to the extra activity during the 2010 merger. The cash balance of \$9,238 is down significantly when compared to the December 31, 2010 balance at \$193,658 which was on hand still from the financing completed in September 2010.

Nine months ended September 30, 2011 and 2010:

Hydro project expenditures for the first nine months ending September 30, 2011 are \$317,667, compared with \$419,133 during the same period in 2010. The nine month expenditures show 2011 expenditures for Environmental Studies at \$177,584 (2010-\$279,333), reduced by \$101,749 due to a reduction in activity following the 2011 licence application. The year to date License application expenditures are \$140,083 (2010 -\$29,297) reflecting the project progress, and the Design and Study accounts \$Nil (2010-\$108,707) illustrate the project's progress from initial planning to the permitting stage.

General and Administrative expenditures for the nine months ending September 30, 2011 are \$348,736 (2010 - \$212,374). The increased G&A expenses are due to public corporation administrative expenses and the related equity compensation, issuance and public company stock filing fees. Wages and benefits expenditures of \$Nil are reduced compared to \$60,625 for the same period in 2010. These wages and benefits expenses, rather than being reduced to \$Nil are currently accounted for in the professional fees category. Expenses totalling \$228,020 are incurred for legal, and accounting and management consulting fees during the nine months ended September 30, 2011 compared to \$104,373 during the same period of 2010. Even with the 2010 wages and benefits netted with 2010 professional fees there is a \$63,022 increase in professional fees when compared to the same period in the previous year. Again this is due to the administration of a public company in the current year vs private enterprise costs. Accretion and interest on convertible debentures was \$26,863 for the first nine months compared to \$Nil for the same period in 2010. Transfer agent, filing and sustaining fees are \$21,734 (\$11,139 - 2010) again due to the public corporation status when compared against the Cascade numbers from last year.

The cash balance of \$9,238 is down when compared to the December 31, 2010 balance at \$193,658 which was on hand still from the financing completed in September 2010. The September 30, 2011 accounts receivable balance at \$50,615 has been collected at the date of this MD&A.

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**RESULTS OF OPERATIONS (continued)**

Hydro Project Licensing:

Cascade Creek

During the first quarter of 2011, 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.

The Company had a preliminary permit for a three-year-period from February 1<sup>st</sup>, 2008 for priority on the development application for this site. This project is now in the licensing phase of the application process with FERC. The preliminary permit expired on February 1<sup>st</sup>, 2011 and the Company subsequently filed a another preliminary permit application with FERC to further protect the Company's status with respect to the FERC process until issuance of a FERC license for the project.

During the second quarter Cascade received timely comments from regulatory agencies including FERC regarding the DLA, and the Preliminary Draft Environmental Assessment ("PDEA"), both submitted February 2011. The comments received provide clear direction for remaining study requirements. Cascade has met with agencies in mid-June and will develop and implement remaining field studies, and complete environmental investigations necessary for the final license application preparation. The issues and extent of studies requested are typical of those required for projects in southeast Alaska and do not reflect any surprises or special circumstance that may negatively affect the Cascade Creek project. Concurrently, the public comment period closed May 15, 2011 on the company's new preliminary permit application to FERC with no competitive application filed by any other entity.

During the third quarter Cascade continued to process agency comments into new draft field study plans to further the effort to collect remaining additional information requested. During this time there were no new field investigations undertaken, but rather continued monitoring of existing field station equipment including trail and wildlife cameras and hydrology gages.

Cascade continues to participate in a State of Alaska commissioned S.E. Alaska Integrated Resources Plan development process. This planning effort is intended to identify future power demand forecast and potential generation and transmission projects to meet the needs of the region. The process involves regional power utilities, independent power producers and stakeholder groups functioning as a workgroup under consultant led guidance. The outcome of this planning process is expected to be produced first quarter of 2012 and may guide regional power resource development. Cascade held a public informational meeting and open house in August in Petersburg to share project information with the general public. Cascade also attended the Alaska Southeast Economic Conference in Ketchikan in September.

Similarly, Cascade has begun preliminary discussion with the Southeast Alaska Power Agency to identify opportunities for power generation development and transmission collaboration that may help meet local and regional power needs. This effort continues in addition to Cascade's efforts to promote, plan and stimulate the construction of a transmission connection to British Columbia, Canada, in immediate proximity to the ongoing extension and capacity increase of the Canadian Northern Transmission Line.

As of the close of the third quarter 2011, Cascade is still awaiting the pending issuance of the third successive Preliminary Permit from FERC formalizing the preserved priority in developing a final license application for the project. FERC advises that the delay is due to staff resource constraints.

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**RESULTS OF OPERATIONS (continued)**

Cascade was invited to attend an Alaska State sponsored work session with the Alaska Energy Authority Board of Directors on November 10, 2011. The purpose of the workshop was to identify how independent power producers could assist the state in meeting the power needs throughout the state. Cascade's participation portrayed the potential benefits to citizens in reduced costs, identified some of the barriers to market access and provided suggestions as to how the Alaska Energy Authority could assist IPP's in joining to meet community power needs.

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. No work is currently being carried out on Ruth Lake.

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. No work is currently being carried out on Scenery Lake.

Hydro Project Field Studies:

The Company continued hydrology gage site maintenance, monitoring and data downloads during the quarter and continued fisheries presence/absence observational surveys in Falls Lake and lower Cascade Creek. In the quarter, Rainbow Trout spawner surveys were continued as well as performing Eagle and raptor nest & activity surveys. The spring mountain goat helicopter reconnaissance for presence/absence was carried out and trail use cameras were installed & maintained. The Company also carried out general wildlife presence/absence observations.

Additional cycles of stream gage and trail camera maintenance and data downloads were completed in August and November 2011.

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**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 December 31							
	2011			2010				2009
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>Financial Results</b>								
Interest income	58	123	58	1,144	655	-	-	-
Net loss for period	144,066	256,783	230,475	1,063,827	294,660	181,826	155,496	105,699
Per share <sup>(1)</sup>	\$ -	\$0.01	\$0.01	\$0.03	\$0.03	\$ -	\$ -	\$ -
<b>Balance Sheet Data</b>								
Cash and cash equivalents	9,238	29,881	112,173	193,658	810,270	10,139	10,326	24,650
Total assets	89,512	112,471	188,655	262,133	852,427	29,181	35,352	60,660
Shareholder's equity	(864,591)	(821,822)	(570,665)	(373,795)	519,749	(620,673)	(438,848)	(305,109)

<sup>(1)</sup> No loss per share information has been presented for the comparative quarters prior to Q3 2010 as these figures represent the assets and operations of Cascade Creek LLC, which did not have share capital separated into discrete shares.

**LIQUIDITY AND SOLVENCY**

As at September 30, 2011, the Company has a working capital deficit of \$385,580. 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.

The current cash resources are not adequate to pay our accounts payable and to meet our minimum commitments at the date of this MD&A, including planned corporate and administrative expenses, the Hydro Project programme, and other Project implementation costs. To complete the development of the Cascade Creek Hydro Project beyond the date of this MD&A, we will need to raise additional funds. The availability of funds to develop the Cascade Creek Hydro Project is not guaranteed and will be contingent upon a number of factors including the condition of the equity and debt markets at the time they are required.

**CAPITAL RESOURCES**

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



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## **RECENT ACCOUNTING PRONOUNCEMENTS**

### **Recent Accounting Pronouncements**

#### a) Business Combinations

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.

#### b) 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 prepare an opening IFRS balance sheet and will have to provide comparative IFRS information for the previous fiscal year. As the Company's comparative IFRS information was previously reported under Canadian GAAP, restatement of amounts is required for comparative purposes.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, we have commenced reporting on this basis in these consolidated financial statements. In the March 31, 2011 and subsequent consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

The consolidated financial statements 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. First-time Adoption Exemptions Applied

IFRS 1, which governs the first-time adoption of IFRS, generally requires accounting policies to be applied retrospectively to determine the opening balance sheet on our transition date of January 1, 2010, and allows certain exemptions on the transition to IFRS. In accord with permissible exemption the Company has elected to not restate previous business combinations and the accounting thereof.

We have applied IFRS 1 in preparing the first IFRS consolidated interim financial statements for March 31, 2011 and subsequent financial statements. The statements include policies necessary to meet IFRS requirements. The effects of the transition are presented on page 9 entitled CDN GAAP to IFRS.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

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**RELATED PARTY TRANSACTIONS**

**a) Due to Related Parties**

As at September 30, 2011, the Company has accrued \$181,695 (2010 - \$177,092) due to directors and companies controlled by directors or officers of the Company for legal, accounting and consulting services described in Note 11(b). The amounts are non-interest bearing, unsecured and due on demand.

**b) Transactions with Related Parties**

During the nine months ended September 30, 2011 and 2010, the Company had the following related party transactions:

- i) For the nine months ended September 30, 2011, the Company paid or incurred a total of \$121,138 (2010 - \$6,044) to a director for legal services and to a company controlled by an officer for CFO services.
- ii) For the nine months ended September 30, 2011, the Company paid or incurred a total of \$116,460 (2010 - \$177,092) to a company controlled by a director, and in which another director is an officer, for consulting and engineering services relating to the Cascade Creek hydro electric project.
- iii) For the nine months ended September 30, 2011 the Company paid or incurred a total of \$42,807 (2010-\$Nil) to two directors for management services.
- iv) For the nine months ended September 30, 2011 the Company advanced its 100% owned subsidiary Cascade Creek LLC \$268,000 (2010-\$350,000)

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.

**OUTSTANDING SHARE DATA**

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. 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.

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 were 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 outlined above

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**OUTSTANDING SHARE DATA – (Continued)**

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 were 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.

During the year, to the date of this MD&A the Company has elected to pay accrued interest on Convertible Debentures by the issuance of common shares, at a price per share equal to the market price of the common shares at the date of issuance. During the period the company has issued 108,081 shares for \$16,065 in interest payments.

On September 30, 2011 the Company settled \$57,657 (C\$59,900) of debts by the issuance of 374,375 common shares at a deemed price of \$0.1540 (C\$0.16) per share with a director and an officer of the Company.

As at the date of this MD&A, there are 37,987,414 common shares outstanding.

**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, 2011, 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 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.

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. In the first nine months of 2011 the Company issued an aggregate of C\$264,000 of Convertible Debentures in several tranches.

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**TAXES**

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

		Sep 30, 2011	Dec 31, 2010
Non-capital loss carry forwards	\$	262,999	\$ 141,672
Development costs		513,395	405,388
Share issuance costs		89,991	69,616
	\$	866,385	\$ 616,676
Valuation allowance		(866,385)	(616,676)
Balance, end of year	\$	-	\$ -

As at September 30, 2011, the Company has approximately CAD\$744,000 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 September 30, 2011, the Company has approximately \$329,000 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.

As at September 30, 2011, the Company has approximately \$1,510,000 of development costs available to reduce taxable income for future years in the United States.

In assessing deferred tax assets, management considers whether it is more likely than not that some portion of all of the deferred tax assets will not be realized. The ultimate realization of deferred 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 deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of deferred tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period.

**CDN GAAP to IFRS**

The major differences between the current accounting policies of the Company and those the Company expects to apply in preparing IFRS financial statements are included below. These differences do not represent a complete list of expected changes under IFRS.

Key areas	Canadian GAAP	IFRS	Analysis
Capital assets	Capital assets are recorded at cost.	Under IFRS 1, capital assets can be recorded at historical cost or at fair value. The carrying value must be assessed annually or when events or circumstances occur which could impair the carrying value.	The Company will continue to record its capital assets at cost due to the minimal values at the current period.
Hydropower projects and deferred costs	Evaluation and development costs can be either capitalized or expensed when incurred.	IFRS provides only limited guidance on this topic and currently allows the Company to continue its current treatment.	The existing policy of expensing evaluation development cost pending viability will be maintained.
Impairment of	Hydropower project costs are	Same as Canadian GAAP.	The use of discounted

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*(In US Funds, unless otherwise indicated)*

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long lived assets	tested for impairment on an annual basis or when there are indicators of Impairment.		future cash flows as an indicator of impairment may increase the likelihood of write downs in the future.
Functional currency	The Company has determined that the Canadian dollar is its functional currency of the parent company and USD is the functional currency of the sub. Functional currency is determined by the reference to the following: The currency used in day-to-day operations; and the currency used for labour, materials and other costs of the product or service.	IFRS provides more guidance in determining functional currency. Functional currency is defined as the currency of the primary economic environment in which the entity operates. IFRS provides additional factors to consider in determining functional currency.	The Company's functional reporting currency under IFRS is USD as this is the currency of the project which is the primary economic environment with potential development costs and future revenues.
Stock based compensation	Stock based compensation is determined using the Black Scholes option pricing model. Allows use of the straight line method or accelerated method to account for graded vesting features.	Stock based compensation is determined using the Black Scholes option pricing model. For graded vesting features, each instalment or vesting period is treated as a separate share option grant, and hence the fair value of each vesting period will differ.	The recognition of the value of stock based compensation will remain unchanged from the current treatment as the graded vesting method is in use.

The audit committee of the Company is kept informed of management's decision on accounting policy choices under IFRS.

**SUBSEQUENT EVENTS**

Subsequent to the quarter end the Company has issued an additional 5,455 common shares to holders of the Company's convertible debentures as payment for accrued interest.