



ALASKA HYDRO CORPORATION

**CONSOLIDATED
INTERIM FINANCIAL STATEMENTS**

**FOR THE THREE AND SIX MONTH PERIODS
ENDED JUNE 30, 2012 AND 2011**

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF

INTERIM FINANCIAL STATEMENTS

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

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

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

Alaska Hydro Corporation

Consolidated Interim Balance Sheets

(in US Funds)

	(Unaudited) June 30 2012	(Audited) December 31 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 29,114	\$ 38,261
Amounts receivable	1,953	8,449
Prepaid expenses and deposits	4,600	4,600
	<u>35,667</u>	<u>51,310</u>
Property Plant and Equipment (note 5)	11,250	14,152
	<u>\$ 46,917</u>	<u>\$ 65,462</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 262,950	\$ 311,141
Due to related party (note 12)	252,940	212,997
	<u>515,890</u>	<u>524,138</u>
Unearned income (note 13)	250,000	250,000
Convertible debentures (note 7)	235,830	229,825
Shareholders' equity (deficiency):		
Equity component of convertible debenture (note 7)	31,891	31,891
Share capital (note 8)	2,985,996	2,888,939
Contributed surplus (note 8)	830,323	818,481
Accumulated other comprehensive income	24,567	25,332
Deficit	(4,827,580)	(4,703,144)
	<u>(954,803)</u>	<u>(938,501)</u>
	<u>\$ 46,917</u>	<u>\$ 65,462</u>

Nature of operations (note 1)

Commitments (note 13)

On behalf of the Board on August 29, 2012:

Signed "Clifford A. Grandison" Co-Chairman

Signed: "Michael Hoole" Chairman of the Audit Committee

Alaska Hydro Corporation

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

	For the three months ended		For the six months ended	
	June 30		June 30	
	2012	2011	2012	2011
Hydro project expenditures (note 6)	\$ 345	\$ 153,221	\$ 640	\$ 280,224
General and administrative:				
Professional fees	51,130	49,070	71,627	130,879
Share-based compensation	3,440	1,292	11,842	2,571
Accretion expense	3,267	2,768	6,564	4,084
Interest on convertible debentures	7,817	8,018	15,707	11,827
Office administration	1,258	8,255	1,857	24,181
Investor relations	-	(19)	887	2,124
Transfer agent, filing and sustaining fees	7,523	5,469	12,415	13,060
Amortization	1,450	1,450	2,901	2,901
	75,885	76,303	123,800	191,627
Loss before other item	76,230	229,524	124,440	471,851
Other item:				
Interest income and other	3	123	4	181
Net loss for the period	(76,227)	(229,401)	(124,436)	(471,670)
Currency translation differences	5,887	(2,600)	(765)	9,194
Comprehensive loss for the period	\$ (70,340)	\$ (232,001)	\$ (125,201)	\$ (462,476)
Net loss per share - basic and diluted	\$ (0.00)	\$ (0.01)	\$ (0.00)	\$ (0.01)
Weighted average shares outstanding	39,423,111	37,504,958	38,725,508	37,504,958
Shares outstanding at end of period	39,900,995	37,504,958	39,900,995	37,504,958

Alaska Hydro Corporation

Consolidated Interim Statements of Cash Flows
(in US Funds)

	For the three months ended June 30		For the six months ended June 30	
	2012	2011	2012	2011
Cash flows provided by (used in):				
Operating activities:				
Loss for the period	\$ (76,227)	\$ (229,401)	\$ (124,436)	\$ (471,670)
Item not affecting cash:				
Amortization	1,450	1,450	2,901	2,901
Accretion expense	3,267	2,768	6,564	4,084
Share-based compensation	3,440	1,292	11,842	2,571
	(68,070)	(223,891)	(103,129)	(462,114)
Changes in non-cash working capital items:				
Amounts receivable and prepaid	7,643	(4,212)	6,496	(8,878)
Accounts payable and accrued liabilities	(39,075)	51,734	(32,927)	(15,928)
Cash used in operating activities	(99,502)	(176,369)	(129,560)	(486,920)
Financing Activities:				
Paid-up share capital	(24,973)	-	-	-
Shares issued	81,235	-	81,235	-
Convertible debentures issued, net of issue costs	-	10,394	-	252,402
Loans from (payments to) related parties	27,419	81,491	39,943	61,547
Deferred financing	-	4,792	-	-
Cash provided by financing activities	83,681	96,677	121,178	313,949
Effect of foreign exchange on cash flows	5,887	(2,600)	(765)	9,194
Change in cash and cash equivalents during the period	\$ (9,934)	\$ (82,292)	\$ (9,147)	\$ (163,777)
Cash and cash equivalents - beginning of period	\$ 39,048	\$ 112,173	\$ 38,261	\$ 193,658
Cash and cash equivalents - end of period	\$ 29,114	\$ 29,881	\$ 29,114	\$ 29,881
Non-Cash investing and financing activities				
Shares issued for interest	\$ 10,544	\$ -	\$ 15,842	\$ -
Warrants issued for services	\$ -	\$ -	\$ -	\$ 3,346

Alaska Hydro Corporation

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

	For the six months ended June 30	
	2012	2011
Equity component of convertible debenture (note 7)		
Beginning of period	\$ 31,891	\$ -
Issued	-	33,314
End of period	31,891	33,314
Share capital (note 8)		
Beginning of period	2,888,939	2,825,860
Shares issued for interest	15,822	-
Shares issued for private placement	81,235	-
End of period	2,985,996	2,825,860
Contributed surplus (note 8)		
Beginning of period	818,481	765,728
Share based compensation	11,842	2,571
Warrants issued for services	-	3,346
End of period	830,323	771,645
Accumulated other comprehensive income		
Beginning of period	25,332	11,071
Currency translation differences	(765)	9,194
End of period	24,567	20,265
Deficit		
Beginning of period	(4,703,144)	(3,976,454)
Loss	(124,436)	(471,670)
End of period	(4,827,580)	(4,448,124)
Total equity	\$ (954,803)	\$ (797,040)

Alaska Hydro Corporation

Notes to the Consolidated Interim Financial Statements
For the Three and Six Months Ended June 30, 2012 and 2011
(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 as defined in Policy 2.4 of the TSX Venture Exchange (the “Exchange”). On September 3, 2010 the Company completed its Qualifying Transaction (the “Qualifying Transaction”) pursuant to the rules and policies of the Exchange by acquiring the net assets and operations of Cascade Creek LLC. (“Cascade”), a development stage hydro electric project. On that date the Company also changed its name to Alaska Hydro Corporation. The Company commenced trading on the Exchange as a Tier 2 Issuer on September 8, 2010 under its new name and trading symbol “AKH”. As disclosed in Note 2, this transaction has been treated as a reverse take over of the Company by Cascade and accounted for as a listing expense of the Company in 2010. The balances and transactions reported for subsequent periods are comprised of Alaska Hydro’s operations. 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 \$124,436 (2011 - \$471,670) for the six months ended June 30, 2012, and had an accumulated deficit of \$4,827,580 (2011 - \$4,448,124) at June 30, 2012 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 its Cascade Creek 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 its Cascade Creek 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 raised funds in the past, there can be no assurance the Company will be able to raise sufficient funds in the future, in which case the Company may be unable to meet its obligations as they come due in the normal course of business. It is not possible to predict whether financing efforts will be successful or if the Company will attain a profitable level of operations.

The current cash resources are not adequate to pay the Company’s accounts payable and to meet its minimum commitments at the date of these Consolidated Financial Statements, including planned corporate and administrative expenses, the Cascade Creek Hydro Project programme, and other project implementation costs. To complete the development of the Cascade Creek Hydro Project beyond the date of these Consolidated Financial Statements, the Company 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 funds are required. If the Company is unable to raise additional funds it may have to joint venture, sell or abandon its interest in the Cascade Creek project and/or cease operations. 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.

The Company’s wholly owned subsidiary, Cascade Creek, LLC was advised on January 30, 2012 by the FERC that it had issued an Order denying the successive preliminary permit application filed February 1, 2011 by Cascade for the Cascade Creek Hydroelectric Project No. 12495-003. The Company has since filed a request for a rehearing of the FERC order. The Company subsequently has received an “Order Granting Rehearing For Further Consideration” from FERC. This granting has extended the timeline of Cascade’s rehearing application past FERC’s first date of denial which was 30 days from the application date.

Alaska Hydro is a British Columbia corporation with its head office located at 11906 – 194B Street, Pitt Meadows, British Columbia, Canada, V3Y 1K2

Alaska Hydro Corporation

Notes to the Consolidated Interim Financial Statements
For the Three and Six Months Ended June 30, 2012 and 2011
(In US Dollars)

2. REVERSE TAKE OVER AND LISTING EXPENSE

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 8).

Although the transaction resulted in Cascade becoming a wholly-owned subsidiary of Alaska Hydro, the transaction constituted a reverse take over of Alaska Hydro by Cascade and was accounted for as a listing expense because it did not meet the criteria for a business combination, in accordance with IFRS 3. Since the substance of the transaction resulted in the equity holders of Cascade effectively giving up a portion of Cascade in exchange for achieving a public company listing on the Exchange, this consideration deemed to have been given up Cascade in exchange for the listing was accounted for as share based payments in accordance with IFRS 2.

These financial statements are deemed to be a continuation of the assets, operations, and capital of Cascade and they have been presented on that basis as if Cascade had acquired the net assets and Exchange listing of Alaska Hydro in connection with reverse take over 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.

The consideration deemed to have been paid by Cascaded and the net obligations of Alaska Hydro assumed on September 3, 2010 for financial statement presentation purposes were as follows:

Escrow common shares	\$	138,014
Common shares		337,950
Stock options		17,314
		<hr/>
		493,278
Net liabilities assumed by the Company		18,029
		<hr/>
Listing expenses	\$	511,307
		<hr/>

3. BASIS OF PREPARATION

a) Statement of compliance

These consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. The Company’s first IFRS annual consolidated financial statements were for year the ending December 31, 2011. Subject to certain IFRS transition elections, the Company has consistently applied the same accounting policies in its opening IFRS balance sheet at January 1, 2010 and throughout all periods presented, as if the policies had always been in effect.

These unaudited consolidated interim financial statements should be read in conjunction with our IFRS audited annual consolidated financial statements for the year ended December 31, 2011. These unaudited consolidated interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements including IAS 34, Interim Financial Reporting (“IAS 34”) and IFRS 1 First-Time adoption of International Reporting Standards (“IFRS 1”). In the opinion of management, all adjustments considered necessary for fair presentation have been included. Operating results for the six months period ended June 30, 2012 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2012.

Alaska Hydro Corporation

Notes to the Consolidated Interim Financial Statements
For the Three and Six Months Ended June 30, 2012 and 2011
(In US Dollars)

3. BASIS OF PREPARATION (continued)

b) Consolidation

The consolidated financial statements include the accounts of the Company and its 100% owned subsidiary, Cascade. Cascade was incorporated in the State of Alaska and as at June 30, 2012 is 100% owned by the Company. Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

4. SIGNIFICANT ACCOUNTING POLICIES

a) Measurement Basis

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

b) Equipment

Equipment is recorded at cost and is 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

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

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

Alaska Hydro Corporation

Notes to the Consolidated Interim Financial Statements
For the Three and Six Months Ended June 30, 2012 and 2011
(In US Dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

f) Long-lived Assets and Impairment

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

g) Income Taxes

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

h) Loss per Share

Loss per share is calculated using the weighted average number of shares outstanding during the reporting period. The Company uses the treasury stock method for computing diluted loss per share. This method assumes that any proceeds obtained upon exercise of outstanding options or warrants would be used to purchase common shares at the average market price during the period. As the Company has recorded a net loss in the six months ended June 30, 2012 and 2011, basic and diluted net loss per share are the same because the all potential dilutive shares are anti-dilutive.

i) Share Issue Costs

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

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

Notes to the Consolidated Interim Financial Statements
For the Three and Six Months Ended June 30, 2012 and 2011
(In US Dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions. These estimates affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include the assessment of recoverability and valuation of assets, the determination of the 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 share-based compensation transactions. Financial results as determined by actual events could differ from those estimates.

l) Financial Instruments

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

a) Financial assets

The Company has classified its cash and cash equivalents at FVTPL. A financial instrument is classified at FVTPL if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Financial instruments at FVTPL are measured at fair value and changes therein are recognized in income.

b) Financial liabilities

The Company has classified its accounts payable and accrued liabilities, amounts due to related parties, and convertible debentures as other financial liabilities. Accounts payable and accrued liabilities and amounts due to related parties are recognized at the amount required to be paid less, when material, a discount to reduce the payable to fair value. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

m) Share-based compensation

Compensation expense for share option grants to employees and others providing similar services is based on the fair value of the stock options issued at the grant date, which is determined using the Black-Scholes Option-Pricing Model. Compensation expense for share options granted to parties other than employees is recognized as the options are earned and the services are provided. Compensation expense for share options granted to employees is amortized over the vesting period using a graded vesting assumption. Consideration paid by employees and parties other than employees together with the related contributed surplus on the exercise of stock options is recorded as share capital.

Alaska Hydro Corporation

Notes to the Consolidated Interim Financial Statements
For the Three and Six Months Ended June 30, 2012 and 2011
(In US Dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) New Accounting Standards Issued but Not Yet Effective

Certain new standards, interpretations and amendments to existing standards have been issued by the International Accounting Standards Board (“IASB”) or the International Financial Reporting Interpretations Committee (“IFRIC”) that are mandatory for accounting periods beginning after January 1, 2011, or later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

New accounting standards effective January 1, 2012

Amendments to IFRS 7 *Financial Instruments: Disclosures* - In October 2010, the IASB issued amendments to IFRS 7 that improve the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with early adoption permitted. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

IAS 12 *Income taxes* - In December 2010, the IASB issued an amendment to IAS 12 that provides a practical solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after July 1, 2011, with early adoption permitted. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

New accounting standards effective January 1, 2013

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

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

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

Alaska Hydro Corporation

Notes to the Consolidated Interim Financial Statements
For the Three and Six Months Ended June 30, 2012 and 2011
(In US Dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) New Accounting Standards Issued but Not Yet Effective

New accounting standards effective January 1, 2013 (continued)

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

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

Amendments to IAS 1 *Presentation of Financial Statements* - The IASB has amended IAS 1 to require entities to separate items presented in other comprehensive income (“OCI”) into two groups, based on whether or not items may be reclassified into profit or loss in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

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

New accounting standards effective January 1, 2015

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

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

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

Alaska Hydro Corporation

Notes to the Consolidated Interim Financial Statements
For the Three and Six Months Ended June 30, 2012 and 2011
(In US Dollars)

5. EQUIPMENT

Cost	Equipment
As at December 31, 2011	\$ 29,012
Additions	–
As at June 30, 2012	\$ 29,012
Accumulated Depreciation	
As at December 31, 2011	\$ 14,860
Depreciation	2,901
As at June 30, 2012	\$ 17,761
Carrying Amounts	
Balance, December 31, 2011	\$ 14,152
Balance, June 30, 2012	\$ 11,250

6. 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 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.

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 1st, 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 1st, 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.

Alaska Hydro Corporation

Notes to the Consolidated Interim Financial Statements
For the Three and Six Months Ended June 30, 2012 and 2011
(In US Dollars)

6. POWER PROJECT DEVELOPMENT COSTS (continued)

Cascade Creek (continued)

During the second quarter of 2011 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 2011 and subject to FERC granting a new preliminary permit, 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 began 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 year 2011, Cascade was 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 advised that the delay was due to staff resource constraints

On January 30, 2012 Cascade was advised by FERC that it had issued an Order denying the successive preliminary permit application filed February 1, 2011 by Cascade for the Cascade Creek Hydroelectric Project No. 12495-003. On March 28, 2012 Cascade received an “Order Granting Rehearing For Further Consideration” from FERC in response to Cascade’s application for rehearing request filed February 29, 2012. As at June 30, 2012 Cascade has yet to be advised of a date for rehearing of the Commission’s order.

Alaska Hydro Corporation

Notes to the Consolidated Interim Financial Statements
For the Three and Six Months Ended June 30, 2012 and 2011
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6. 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 was 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 was intended to last for an extended period of time, depending on subsequent license renewals. No work is currently being carried out on Scenery Lake.

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 4(d):

	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
	<hr/>	<hr/>	<hr/>	<hr/>
	793,104	46,752	31,168	871,024
<hr/>				
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
	<hr/>	<hr/>	<hr/>	<hr/>
	343,628	26,490	11,451	381,569
	<hr/>	<hr/>	<hr/>	<hr/>

Alaska Hydro Corporation

Notes to the Consolidated Interim Financial Statements
For the Three and Six Months Ended June 30, 2012 and 2011
(In US Dollars)

6. POWER PROJECT DEVELOPMENT COSTS (continued)

	Cascade Creek \$	Ruth Lake \$	Scenery Lake \$	Total \$
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
Year ended December 31, 2011				
Engineering Project Costs				
Environmental Studies	181,172	-	-	181,172
License application	140,083	-	-	140,083
	321,255	-	-	321,255
	2,835,037	94,377	46,804	2,976,218
Period ended June 30, 2012				
Engineering Project Costs				
Environmental Studies	640	-	-	640
	640	-	-	640
Total at June 30, 2012	2,835,677	94,377	46,804	2,976,858

Alaska Hydro Corporation

Notes to the Consolidated Interim Financial Statements
For the Three and Six Months Ended June 30, 2012 and 2011
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7. CONVERTIBLE DEBENTURES

	Jun 30	Dec 31
	2012	2011
Convertible debentures with a face value of C\$89,000, bearing interest at 12%, unsecured and due on January 21, 2014	\$ 78,899	\$ 76,568
Convertible debentures with a face value of C\$90,000, bearing interest at 12%, unsecured and due on February 9, 2014	80,851	78,923
Convertible debentures with a face value of C\$75,000, bearing interest at 12%, unsecured and due on March 22, 2014	67,105	65,542
Convertible debentures with a face value of C\$10,000, bearing interest at 12%, unsecured and due on May 2, 2014	8,975	8,792
Liability component of convertible debentures	235,830	229,825
Less: current portion	-	-
Long-term portion	\$ 235,830	\$ 229,825

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

The Company used the residual value method to allocate the principal amount of the convertible debentures between the liability and equity components. Under this method, the value of the equity component of \$31,891 (C\$31,409) was determined by deducting the fair value of the liability component of C\$231,188 and C\$1,403 issue fees from the principal amount of C\$264,000. The fair value of the liability component was computed as the present value of future principal and interest payments discounted at a rate of 17.5% per annum. The following tables summarize the changes in the liability and equity components of the convertible debentures during the period ended June 30, 2012:

Liability component	Jun 30, 2012	Dec 31, 2011
Balance, beginning of year	C\$ 233,762	C\$ -
Gross proceeds from issuance	-	264,000
Amount allocated to the equity component	-	(32,812)
Direct issuance costs allocated to the liability component	-	(9,885)
Accretion	6,572	12,459
Balance, end of period	240,334	233,762
Less: current portion	-	-
Long-term portion, end of period	C\$ 240,334	C\$ 233,762
Long-term portion, end of period	US\$ 235,830	US\$ 229,825

Alaska Hydro Corporation

Notes to the Consolidated Interim Financial Statements
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7. CONVERTIBLE DEBENTURES (continued)

Equity component	Jun 30, 2012		Dec 31, 2011	
Balance, beginning of year	\$	31,409	\$	-
Gross proceeds from issuance		-		264,000
Amount allocated to the liability component		-		(231,188)
Direct issuance costs allocated to the equity component		-		(1,403)
Balance, end of period	C\$	31,409	C\$	31,409
Balance, end of period	US\$	31,891	US\$	31,891

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

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

Fiscal Year	Amount	
2014	C\$	264,000
2015		-
	C\$	264,000
	US\$	259,052

Alaska Hydro Corporation

Notes to the Consolidated Interim Financial Statements
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8. 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 take over 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
Listing expenses (Note 2)	-	-	493,278
Options granted (Note 8(e))	-	-	205,388
Balance December 31, 2010	37,504,958	\$ 2,825,860	\$ 765,728
(4) Shares issued for interest	108,081	16,049	-
(5) Shares issued for services	374,375	46,847	-
Share issue cost recoveries	-	183	-
Options granted (Note 8(e))	-	-	49,608
Finders warrants issued (Note 8(d))	-	-	3,145
Balance December 31, 2011	37,987,414	\$ 2,888,939	\$ 818,481
(6) Shares issued for interest	313,581	15,822	-
Options granted (Note 8(e))	-	-	11,842
(7) Shares issued for non brokered private placement	1,600,000	81,235	-
Balance June 30, 2012	39,900,995	\$ 2,985,996	\$ 830,323

(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 take over 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.

Alaska Hydro Corporation

Notes to the Consolidated Interim Financial Statements
For the Three and Six Months Ended June 30, 2012 and 2011
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8. SHARE CAPITAL (continued)

(b) Issued and Outstanding (continued):

- (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 outlined in (1) above.
- (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.
- (4) During the year ending December 31, 2011 the Company has elected to pay accrued interest on Convertible Debentures (Note 7) by the issuance of common shares, at a price per share equal to the market price of the common shares at the date of issuance. During the year the company issued 108,081 shares for \$16,032 interest.
- (5) On September 30, 2011 the Company settled \$59,900 of debts by the issuance of 374,375 common shares at a fair value of \$0.1251 (C\$0.13) per share with a director and an officer of the Company.
- (6) On January 23, 2012 the Company elected to pay accrued interest on Convertible Debentures (Note 7) 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 issued 53,400 shares for \$5,298 interest.
- (7) On April 25, 2012 the Company closed a non-brokered private placement of 1,600,000 units at a price of \$0.0508 (C\$0.05) per unit for total receipt of \$81,235 (C\$80,000). Each unit is comprised of one common share in the capital of the issuer and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at an exercise price of \$0.1015 (C\$0.10) per share until April 25, 2017.

(c) Shares Held in Escrow:

At June 30, 2012, 7,956,822 of the issued and outstanding common shares were held in escrow. See Note 8(b)(1) and 8(b)(2) for escrow terms.

Alaska Hydro Corporation

Notes to the Consolidated Interim Financial Statements
For the Three and Six Months Ended June 30, 2012 and 2011
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8. SHARE CAPITAL (continued)

(d) Warrants:

The current balance of outstanding warrants is as follows:

	Weighted Average Exercise Price (C\$)	Warrants
Balance December 31, 2010	\$ 0.19	16,370,872
Issued	0.16	29,063
Balance December 31, 2011	0.19	16,399,935
Issued	0.10	1,600,000
Balance June 30 ,2012	\$ 0.18	17,999,935

The warrants issued and outstanding as at June 30, 2012 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
January 21, 2013	18,125	0.16
February 9, 2013	6,250	0.16
March 22, 2013	4,688	0.16
April 25, 2017	1,600,000	0.10
No expiration	6,238,542	—
Balance June 30, 2012	17,999,935	\$ 0.18

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 8(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:

Share price at grant date	\$0.16
Expected life	2 years
Volatility	137.2%
Risk free interest rate	1.37%
Dividends	0%

During 2011, 29,063 finders warrants with an exercise price of \$0.16 and a term of two years were issued as part of the costs of the convertible debenture offering (Note 7). 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:

Weighted average share price at grant date	\$0.17
Expected life	2 years
Volatility	123.0%
Risk free interest rate	1.74%
Dividends	0%

Alaska Hydro Corporation

Notes to the Consolidated Interim Financial Statements
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8. 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, 2010	\$ 0.16	2,265,000
Granted Jul 22, 2011	0.12	100,000
Granted Aug 18, 2011	0.18	60,000
Granted Sep 20, 2011	0.16	275,000
Expired	—	—
Balance December 31, 2011 and June 30, 2012	\$ 0.16	2,700,000

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	1.2 years
^(b) December 1, 2015	2,091,667	2,125,000	0.16	3.4 years
^(c) July 22, 2016	100,000	100,000	0.12	4.0 years
^(d) August 18, 2016	60,000	60,000	0.18	4.1 years
^(e) September 20, 2016	125,000	275,000	0.16	4.2 years
Balance June 30, 2012	2,516,667	2,700,000	\$ 0.16	3.4 years

- (b) During 2010, 2,125,000 options with an exercise price of C\$0.16 and terms of five years were granted to directors, officers, employees and consultants of the Company. The share-based compensation related to these grants had a fair value of C\$0.10 per option and was estimated using the Black-Scholes option pricing model, using the following weighted average assumptions and results:

Share price at grant date	\$0.12
Expected life	5 years
Volatility	131%
Risk free interest rate	2.44%
Dividends	0%

Alaska Hydro Corporation

Notes to the Consolidated Interim Financial Statements
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8. SHARE CAPITAL (continued)

(e) Options:

- (c) During 2011, 435,000 options with a weighted average exercise price of C\$0.15 and terms of five years were granted to directors of the Company. The share-based compensation related to this grant had a weighted average fair value of C\$0.10 per option and was estimated using the Black-Scholes option pricing model, using the following weighted average assumptions and results:

Weighted average share price at grant date	\$0.15
Expected life	5 years
Volatility	123%
Risk free interest rate	1.61%
Dividends	0%

9. TAXES

As at June 30, 2012, the Company has approximately C\$1,052,000 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 2025 if unused.

As at June 30, 2012, the Company has approximately \$420,000 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 June 30, 2012, the Company has approximately \$1,514,000 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 or 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.

Alaska Hydro Corporation

Notes to the Consolidated Interim Financial Statements
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10. MANAGEMENT OF CAPITAL

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

11. FINANCIAL INSTRUMENTS AND RISK

Financial Instruments

As at June 30, 2012, 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 raised funds in the past, there can be no assurance the Company will be able to raise sufficient funds in the future, in which case the Company may be unable to meet its obligations as they come due in the normal course of business. It is not possible to predict whether financing efforts will be successful or if the Company will attain a profitable level of operations.

The current cash resources are not adequate to pay the Company's accounts payable and to meet its minimum commitments, 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 these Consolidated Financial Statements, the Company 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. If the Company is unable to raise additional funds it may have to joint venture, sell or abandon its interest in the Cascade Creek project and/or cease operations.

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.

Alaska Hydro Corporation

Notes to the Consolidated Interim Financial Statements
For the Three and Six Months Ended June 30, 2012 and 2011
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11. FINANCIAL INSTRUMENTS AND RISK (continued)

Interest Rate Risk

The Company manages its interest rate risk by obtaining commercial deposit interest rates available in the market from major Canadian financial institutions. The Company has guaranteed investment certificates. The following table summarizes the impact of reasonable possible changes in interest rates for the Company at June 30, 2012 and June 30, 2011. 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.

	2012	2011
Impact on net loss:		
1% increase	\$ 290	\$ 300
1% decrease	\$ (290)	\$ (300)

Fair Value

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

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

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

	Level 1	Level 2	Level 3	Total June 30, 2012
Cash and cash equivalents	\$ 29,114	\$ –	\$ –	\$ 29,114
	\$ 29,114	\$ –	\$ –	\$ 29,114

Alaska Hydro Corporation

Notes to the Consolidated Interim Financial Statements
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12. RELATED PARTY TRANSACTIONS AND BALANCES

a) Due to Related Parties

As at June 30, 2012, the Company has accrued \$252,940 (2011 - \$157,949) due to directors and companies controlled by directors or officers of the Company for legal, accounting and consulting services. The amounts are non-interest bearing, unsecured and due on demand.

b) Transactions with Related Parties

During the six month periods ended June 30, 2012 and 2011, the Company had the following related party transactions:

- i) For the six month period ended June 30, 2012, the Company paid or incurred a total of \$37,846 (2011 - \$68,828) to a director for legal services and to a company controlled by an officer for CFO services.
- ii) For the six month period ended June 30, 2012, the Company paid or incurred a total of \$Nil (2011 - \$89,015) to a company controlled by a former director, and in which another director is an officer, for consulting and engineering services relating to the Cascade Creek hydro electric project.
- iii) The remuneration of the Company's directors and other key management is comprised as follows:

	June 30, 2012	June 31, 2011
Management fees	\$ 5,938	\$ 6,115
Share-based compensation	11,482	2,571
Total	\$ 17,340	\$ 8,686

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.

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

Alaska Hydro Corporation

Notes to the Consolidated Interim Financial Statements
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13. COMMITMENTS (Continued)

c) Contingent Liabilities

The Company's subsidiary, Cascade, has engaged legal counsel relating to Cascades' response to orders from FERC issued on Jan 30, 2012. The Company's obligation in this matter is contingent on a successful conclusion. There have been no entries in the Company's accounts for this contingency. This amount is approximately \$10,000.