



**ALASKA HYDRO CORPORATION**

**MANAGEMENT'S DISCUSSION AND  
ANALYSIS**

**FOR THE QUARTERS ENDED**

**JUNE 30, 2012 AND 2011**

As at August 29, 2012

**Alaska Hydro Corporation**  
Management's Discussion and Analysis  
For the Quarters ended June 30, 2012 and 2011  
*(In US Funds, unless otherwise indicated)*

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The following management's discussion and analysis is for the quarters ended June 30, 2012 and 2011. This MD&A is as of August 29, 2012.

**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 Interim Financial Statements and related Notes (the "Financial Statements"). These consolidated interim 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 are reporting on this basis in these consolidated interim financial statements. In these consolidated interim 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 accounted in accordance with IFRS 2, "Share Based Payments". The equity accounts have been presented as a continuation of Cascade.

The Cascade Creek project, owned by Cascade, 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".

# 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 7,956,822 common shares are held in value escrow pursuant to the policies of the TSX-V at June 30, 2012. These remaining common shares subject to escrow will continue to be released in 15% tranches in 6 month intervals with the next release scheduled September 7, 2012. 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).

During the year ending December 31, 2011 the Company issued an aggregate of C\$264,000 of Convertible Debentures in several tranches. The Convertible Debentures will mature on the date that is three years from the date of issuance and bear interest at 12% per annum, payable semi-annually. The principal amount of the Convertible Debentures is convertible into common shares of the Company, at any time from the date of issuance until the maturity date, at a price equal to C\$0.16 per common share. The Company may elect to pay accrued interest by the issuance of common shares, at a price per share equal to the market price of the common shares at the date of issuance. In addition, the Company may elect to redeem the Convertible Debentures at any time prior to the Maturity Date. The Company paid finder's fees and commissions in connection with these Convertible Debentures of C\$7,750 which includes 29,063 warrants with a two year term, exercisable at C\$0.16.

On April 25, 2012 the Company closed a non-brokered private placement. The private placement was in aggregate 1,600,000 Units ("the Offering") at a price of C\$0.05 per Unit for total receipt of C\$80,000. Each Unit is comprised of one Common Share in the capital of the Issuer (a "Common Share") and one Common Share purchase warrant (a "Warrant"). Each Warrant entitles the holder to acquire one Common Share (a "Warrant Share") at an exercise price of C\$0.10 per Warrant Share until April 25, 2017.

# Alaska Hydro Corporation

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For the Quarters ended June 30, 2012 and 2011

(In US Funds, unless otherwise indicated)

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### 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 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.

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 August 29, 2012 Cascade has yet to be advised of a date for rehearing of the Commission's order.

### SELECTED ANNUAL INFORMATION

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

	Years ended December 31		
	2011	2010	2009
<i>(In US \$ except per share data)</i>			
Other income	\$ 534	\$ 1,799	\$ 23,275
Net loss	726,690	2,218,187	316,743
Comprehensive loss	712,429	2,207,116	-
Basic and diluted loss per share <sup>(1)</sup>	0.02	0.18	-
Hydro project expenditures	321,255	1,193,269	209,101
Total assets	65,462	262,133	60,660
Total long-term financial liabilities	479,825	250,000	250,000
Cash dividends declared per share	\$ -	\$ -	\$ -

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

In 2009, 2010 and 2011, 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 2009, 2010 and 2011. The selected financial data for 2009 was 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.

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**RESULTS OF OPERATIONS**

**Three months ended June 30, 2012 and 2011:**

Hydro project expenditures for the quarter ending June 30, 2012 are \$345 compared with \$153,221 during the same period in 2011. Environmental studies are lower by \$109,903 at \$345 when compared to the second quarter last year; no new field investigations have been undertaken in the current quarter. License application monitoring and response expenditure was \$Nil (2011 -\$120,270) The reduced expenditures are due to the Company awaiting the results of Cascade's application to FERC

General and Administrative expenditures for the second quarter ending June 30, 2012 are \$75,885 (2011 - \$76,303). Expenses totalling \$51,130 are incurred for legal, and accounting and management consulting fees during the three months ended June 30, 2012 are comparable to \$49,070 during the same period of 2011. Share-based compensation expense totalling \$3,440 (\$1,292-2011) in this second quarter is employees, directors and consultants stock option valuation allocation. Accretion and Interest on convertible debentures was \$11,084 for the second quarter compared to \$10,786 for the same quarter in 2011. Transfer agent, filing and sustaining fees are \$7,523 (2011 - \$5,469) are up slightly when compared to 2011. The cash balance of \$29,114 is similar to our cash at June 30, 2011 balance at \$29,881.

**Six months ended June 30, 2012 and 2011:**

Hydro project expenditures for the first half year ending June 30, 2012 are \$640 compared with \$280,224 during the same period in 2011. Environmental studies are lower by \$159,314 at \$640 when compared to the same period last year; no new field investigations have been undertaken in this current period. License application monitoring and response expenditure was \$Nil (2011 -\$120,270). The reduced expenditures are due to the Company awaiting the results of Cascade's application to FERC. 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 August 29, 2012 Cascade has yet to be advised of a date for rehearing of the Commission's order.

General and Administrative expenditures for the six months ending June 30, 2012 are \$123,800 (2011 - \$191,627). Expenses totalling \$71,627 are incurred for legal, and accounting and management consulting fees during the six months ended June 30, 2012 compared to \$130,879 during the same period of 2011. The first half year 2011 professional fees are \$58,252 higher than the 2012 first half year professional fees, due to a reduction in activities originating from FERC denying the Company's successive preliminary permit application. Share-based compensation expense totalling \$11,842 (\$2,571-2011) in the first half year is employees, directors and consultants stock option valuation allocation. Accretion and interest on convertible debentures is \$22,771 for the six months compared to \$15,911 for the same period in 2011. Transfer agent, filing and sustaining fees are \$12,415 (2011 - \$13,060) which is comparable to 2011. The cash balance of \$29,114 is similar to our cash at June 30, 2011 balance at \$29,881.

**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.

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### RESULTS OF OPERATIONS (continued)

During the second quarter 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 2011 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 fourth quarter 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 August 29, 2012 Cascade has yet to be advised of a date for rehearing of the Commission's order.

#### 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.

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**RESULTS OF OPERATIONS (continued)**

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.

**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							
	2012		2011				2010	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
<b>Financial Results</b>								
Interest income	3	1	295	58	123	58	1,144	655
Net loss for period	76,227	48,209	95,366	144,066	256,783	230,475	1,586,205	294,660
Per share	\$ -	\$ -	\$ -	\$ -	\$0.01	\$0.01	\$0.15	\$0.03
<b>Balance Sheet Data</b>								
Cash and cash equivalents	19,114	39,048	38,261	9,238	29,881	112,173	193,658	810,270
Total assets	46,917	65,945	65,462	89,512	112,471	188,655	262,133	852,427
Shareholder's equity	(954,803)	(954,689)	(938,501)	(864,591)	(821,822)	(570,665)	(373,795)	519,749

**LIQUIDITY AND SOLVENCY**

As at June 30, 2012, the Company had a working capital deficit of \$480,223. 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 had 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 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 the debt markets at the time they are required and contingent upon a positive outcome of the FERC licensing process and receipt of the required licenses.

**CAPITAL RESOURCES**

In 2010 the Company completed a financing concurrent with the Qualifying Transaction with Cascade. In 2011 the company issued Convertible Debentures in several tranches and in April 2012 the Company closed a non-brokered private placement. See "Description of Business".

# Alaska Hydro Corporation

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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 June 30, 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.



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**OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

**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.

**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:

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

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.

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**OUTSTANDING SHARE DATA**

On September 3, 2010 a total of 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 to the Vendors, an aggregate of 7,956,822 common shares are held in value escrow pursuant to the policies of the TSX-V at June 30, 2012. These remaining common shares subject to escrow will continue to be released in 15% tranches in 6 month intervals with the next release scheduled September 7, 2012. Of these securities, 6,000,000 common shares issued to certain of the Vendors 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

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.

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.

During the year ended December 31, 2011, 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 2011 the company has issued 108,081 shares for \$16,065 in interest payments.

During 2012 to the date of this MD&A the company has issued 313,581 shares for \$15,788 in interest payments.

On April 25, 2012 the Company closed a non-brokered private placement. The private placement was in aggregate 1,600,000 Units ("the Offering") at a price of 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 (a "Common Share") and one Common Share purchase warrant (a "Warrant"). Each Warrant entitles the holder to acquire one Common Share (a "Warrant Share") at an exercise price of C\$0.10 per Warrant Share until April 25, 2017.

As at the date of this MD&A, there are 40,207,853 common shares outstanding.

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## **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 June 30, 2012, 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 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 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.

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 August 29, 2012 Cascade has yet to be advised of a date for rehearing of the Commission's order.

## **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.