



ALASKA HYDRO CORPORATION
(formerly Project Finance Corp.)

**MANAGEMENT'S DISCUSSION AND
ANALYSIS**

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

As at April 28, 2011

Alaska Hydro Corporation (formerly Project Finance Corp.)

Management's Discussion and Analysis

For the Years ended December 31, 2010 and 2009

(In US Funds, unless otherwise indicated)

The following management's discussion and analysis is for the years ended December 31, 2010 and 2009. This MD&A is as of April 28, 2011.

INTRODUCTION

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

DESCRIPTION OF BUSINESS

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

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

The Cascade Creek project is comprised of a proposed 70 MW lake syphon hydro electric facility connecting Swan Lake to a powerhouse and a transmission line to a location near Petersburg, Alaska, USA. The project is estimated to generate an approximate average of 190 GW.h per year of renewable energy plus some storage capacity. The Cascade Creek project is part of the Thomas Bay project initiative, which consists of three potential hydro electric facility sites – Cascade Creek, Ruth Lake, and Scenery Lake that would all share transmission lines from Thomas Bay to Petersburg, Alaska.

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

On September 3, 2010 the Company completed its previously announced Qualifying Transaction. The Company acquired all of the issued and outstanding units of Cascade by issuing an aggregate of 23,761,458 common shares and 6,238,542 special warrants at a deemed price of \$0.08 per common share or special warrant, as the case may be. Each special warrant is convertible into one common share for no additional consideration. Cascade and the Company are at arm's length, accordingly the Qualifying Transaction was not a "Non-Arm's Length Qualifying Transaction". Upon completion of the Qualifying Transaction, the Company changed its name to "Alaska Hydro Corporation".

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DESCRIPTION OF BUSINESS (Continued)

Of the 23,761,458 common shares and 6,238,542 special warrants issued to the Vendors, an aggregate of 19,672,683 common shares and special warrants are held in value escrow pursuant to the policies of the TSX-V at December 31, 2010. The remaining common shares subject to escrow will be released in 15% tranches in 6 month intervals thereafter commencing March 7, 2011. Of these securities, 6,000,000 common shares issued to certain of the Vendors are also subject to a performance escrow agreement.

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

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 \$400,000. No finder's fees or commissions were paid in connection with the Non-Brokered Financing. All of the common shares and Warrants issued under the Non-Brokered Financing are subject to a 4-month hold period expiring on January 4, 2011.

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

OVERALL PERFORMANCE

On September 3, 2010 the Company completed the acquisition of Cascade; the shareholders of Cascade own approximately 80% of the common shares of the Company. The Company is in the development stage and its continuing operations are dependent upon its ability to develop the hydro electric project, to raise sufficient financing and to obtain the required licenses from the US FERC. On September 3, 2010 the Company completed additional financings for net proceeds of \$1,295,548. These funds are to be used to further the acquisition of required licences for its Cascade Creek hydroelectric project.

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SELECTED ANNUAL INFORMATION

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

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

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

In 2008, 2009 and 2010, the Company raised funds to carry on its principal business, which was the Cascade Creek hydroelectric project. This is reflected in the expenditures outlines above for the 3 years. Net loss comprised mostly hydroelectric project expenditures in 2008, 2009 and 2010.

The selected financial data for these periods has been prepared in accordance with Canadian GAAP. All monetary amounts are expressed in US dollars unless otherwise indicated.

RESULTS OF OPERATIONS

Three months ended December 31, 2010 and 2009

Hydro project expenditures for the quarter ending December 31, 2010 were \$773,006 compared with \$209,101 during the same period in 2009. In Q4 2009 the project expenditures were expensed for the year, yet still significantly reduced when compared to this quarter. This quarter has increased activity due to the FERC license application and submission work in Alaska's Thomas Bay. There was \$1,144 interest income compared to \$nil for the same period in 2009 which reflects a reduced cash balance in 2009. Expenses totalling \$78,273 were incurred for legal, and accounting, during the three months ended December 31, 2010 compared to \$670 during the same period of 2009. The current quarter has seen increased activity due to the Cascade merger. Wages and benefits expenditures of \$250 were reduced compared to \$20,501 for the same quarter in 2009. The cash balance of \$193,658 is up significantly when compared to the December 31, 2009 balance at \$24,650 due to the financing completed in September 2010. Stock based compensation was \$205,388 for the quarter as a result of the stock options issued at December 1, 2010. These were valued using the Black-Scholes valuation model and did not involve any cash outlay.

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RESULTS OF OPERATIONS (Continued)

Twelve Months ended December 31, 2010 and 2009

Hydro project expenditures for the year ending December 31, 2010 were \$1,193,269 compared to \$209,101 for the same period in 2009. This year is significantly higher as work the project Draft License Application ("DLA") was ramped up (see subsequent events) and nearing completion and the project has moved from the early scoping phase to the field study phase which demands increased spending. There was \$1,799 interest income for the year compared to \$nil for 2009 which reflects the low cash balance during 2009. Expenses totalling \$182,646 were incurred for legal and accounting during the year ended December 31, 2010 compared to \$16,836 during the same period of 2009. The current year has seen increased activity due to the Cascade merger. Wages and benefits expenditures during the year of \$60,875 were down \$30,205 when compared to 2009. Stock based compensation was \$205,388 for the year due to the stock options issued at December 1, 2010. These were valued using the Black-Scholes valuation model and did not involve any cash outlay.

SUMMARY OF QUARTERLY RESULTS

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

(In US\$ except per share data)

	Years ended Dec 31							
	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial Results								
Interest income	1,144	655	-	-	-	-	-	-
Net loss for period	1,063,827	294,660	181,826	155,496	105,699	33,987	27,278	42,137
Per share ⁽¹⁾	\$0.03	\$0.03	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Balance Sheet Data								
Cash and cash equivalents	193,658	810,270	10,139	10,326	24,650	658	5,411	82,540
Total assets	262,133	852,427	29,181	35,352	60,660	138,208	122,668	135,902
Shareholder's equity	(373,795)	519,749	(620,673)	(438,848)	(305,109)	(189,688)	(155,701)	(128,423)

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

LIQUIDITY AND SOLVENCY

As at December 31, 2010, the Company has a working capital deficit of \$143,749. The Company does not generate cash flows from operations and accordingly the Company will need to raise additional funds through future issuance of securities or debt financing. Although the Company has been successful in raising funds in the past, there can be no assurance the Company will be able to raise sufficient funds in the future, in which case the Company may be unable to meet its obligations as they come due in the normal course of business. It is not possible to predict whether financing efforts will be successful or if the Company will attain a profitable level of operations. Subsequent to the yearend the Company issued an aggregate of C\$254,000 of Convertible Debentures in several tranches.

CAPITAL RESOURCES

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

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RECENT ACCOUNTING PRONOUNCEMENTS

Recent Accounting Pronouncements

a) Business Combinations

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

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

b) International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board confirmed that publicly accountable entities will be required to prepare financial statements in accordance with IFRS for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. Companies will have to prepare an opening IFRS balance sheet and will have to provide comparative IFRS information for the previous fiscal year. As the Company's comparative IFRS information was previously reported under Canadian GAAP, restatement of amounts is required for comparative purposes.

The process of changing from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect reported financial position and results of operations, and may also affect certain business functions. The Company's IFRS transition plan is currently in progress with an expected completion date prior to the reporting of the first quarter financials for the 2011 fiscal year. Because the Company is in the "development stage", the IFRS transition issues are not as complex as for a company with operations and sales revenues. The Company expects its disclosure requirements to significantly increase under IFRS; however, it does not expect significant changes to internal and disclosure controls in order to implement IFRS. The Company has determined its functional currency and analyzed the majority of its IFRS accounting policies and the elections available under IFRS 1. The Company will make a final determination of these policies and elections in first quarter of the 2011 fiscal year.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

Due to Related Parties

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

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RELATED PARTY TRANSACTIONS – (Continued)

a) Transactions with Related Parties

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

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

These transactions are in the normal course of operations and are recorded at their exchange amounts, which is the consideration agreed upon by the related parties.

OUTSTANDING SHARE DATA

On September 3, 2010 23,761,458 common shares and 6,238,542 special warrants were issued for 100% of Cascade. Each warrant is convertible into one common share of the Company for no additional consideration. This transaction resulted in a reverse takeover that was a capital transaction in substance (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.

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 above. The warrants are subject to a 4 month hold period expiring January 4, 2011.

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.

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OUTSTANDING SHARE DATA – (Continued)

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

RISKS AND UNCERTAINTIES

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

As at December 31, 2010, the Company is in the development stage and its continuing operations are dependent upon its ability to develop the hydro electric project, to raise sufficient financing and to obtain the required licenses from the US FERC. Upon receiving the FERC license, the Company may proceed to complete and construct the hydro electric project and to ultimately generate income and cash flows from operation of the project. The outcome of these matters cannot be predicted at this time.

The Company does not generate cash flows from operations and accordingly the Company will need to raise additional funds through future issuance of securities or debt financing. Although the Company has been successful in raising funds in the past, there can be no assurance the Company will be able to raise sufficient funds in the future, in which case the Company may be unable to meet its obligations as they come due in the normal course of business. It is not possible to predict whether financing efforts will be successful or if the Company will attain a profitable level of operations. Subsequent to the yearend the Company issued an aggregate of C\$254,000 of Convertible Debentures in several tranches.

INCOME TAXES

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

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

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

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

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INCOME TAXES – (Continued)

As at December 31, 2010, the Company has approximately \$393,000 of non-capital loss carry forwards available to reduce taxable income for future years in Canada. The Canadian loss carry forwards begin to expire in 2028 if unused.

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

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

SUBSEQUENT EVENTS

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

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

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

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