



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

**MANAGEMENT'S DISCUSSION AND  
ANALYSIS**

**FOR THE THREE MONTHS ENDED  
MARCH 31, 2011 AND 2010**

As at June 29, 2011

# **Alaska Hydro Corporation (formerly Project Finance Corp.)**

## **Management's Discussion and Analysis**

**For the Three Months ended March 31, 2011 and 2010**

*(In US Funds, unless otherwise indicated)*

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The following management's discussion and analysis is for the three months ended March 31, 2011 and 2010. This MD&A is as of June 29, 2011.

### **INTRODUCTION**

The discussion and analysis of the operating results and financial position of Alaska Hydro Corporation ("the Company") should be read in conjunction with the attached Consolidated Financial Statements and related Notes (the "Financial Statements"). These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, we have commenced reporting on this basis in these consolidated financial statements. In these consolidated financial statements and in this MD&A, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS. This discussion and analysis may contain forward-looking statements about the Company's future prospects, and the Company provides no assurance that actual results will meet management's expectations. Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and at [www.alaskahydro.com](http://www.alaskahydro.com).

### **DESCRIPTION OF BUSINESS**

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

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

The Cascade Creek project is comprised of a proposed 70 MW lake syphon hydro electric facility connecting Swan Lake to a powerhouse and a transmission line to a location near Petersburg, Alaska, USA. The project is estimated to generate an approximate average of 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 17,132,021 common shares are held in value escrow pursuant to the policies of the TSX-V at March 31, 2011. The remaining common shares subject to escrow will be released in 15% tranches in 6 month intervals thereafter commencing September 7, 2011. Of these securities, 6,000,000 common shares issued to certain of the Vendors are also subject to a performance escrow agreement.

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

Concurrently with the closing of the Qualifying Transaction, the Company completed a financing (the "Brokered Financing") of 6,983,500 units ("Units") of the Company at a price of C\$0.16 per Unit for aggregate proceeds of C\$1,117,360. Each Unit is comprised of one Common Share of the Company and one Warrant. Each Warrant entitles to holder, on exercise, to acquire one Common Share at a price of C\$0.32 per common share until September 3, 2015. The Brokered Financing was conducted by way of Exchange Short Form Offering Document. In consideration for its services, Raymond James Ltd., the Agent, and members of its selling group received commission equal to 8% of the gross proceeds of the Brokered Financing. In addition, the Company issued an aggregate of 555,080 Agent's Warrants to the Agent and members of its selling group. Each Agent's Warrant entitles the holder, on exercise, to acquire one common share at a price of C\$0.16 per common share until September 3, 2012. In addition, the Agent receive a cash corporate finance fee and 93,750 corporate finance warrants, such warrants having the same terms as the Agent's Warrants.

In addition, concurrently with closing of the Qualifying Transaction, the Company completed a non-brokered private placement (the "Non-Brokered Financing") of 2,500,000 Units for aggregate proceeds of \$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](http://www.sedar.com).

#### **OVERALL PERFORMANCE**

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

# Alaska Hydro Corporation (formerly Project Finance Corp.)

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(In US Funds, unless otherwise indicated)

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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 <sup>(1)</sup>	0.14	-	-
Hydro project expenditures	1,193,269	209,101	381,569
Total assets	262,133	60,660	54,704
Total long-term financial liabilities	250,000	250,000	-
Cash dividends declared per share	\$ -	\$ -	\$ -

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

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

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

### RESULTS OF OPERATIONS

Three months ended March 31, 2011 and 2010:

Hydro project expenditures for the quarter ending March 31, 2011 were \$127,003 compared with \$104,730 during the same period in 2010. Both first quarters of are slow periods as the project fieldwork in Alaska is minimal during the winter season. This quarter has increased activity due to the FERC license application and submission work in Alaska's Thomas Bay. Expenses totalling \$115,324 were incurred for legal, and accounting and management consulting fees during the three months ended March 31, 2011 compared to \$Nil during the same period of 2010. The current quarter has seen increased activity due to the Cascade merger. The 2010 quarter is a reflection of Cascade numbers before it became a listed public company. Wages and benefits expenditures of \$Nil were reduced compared to \$22,421 for the same quarter in 2010. These wages and benefits expenses, rather than being reduced to \$Nil are currently accounted for in the professional fees category. The cash balance of \$112,173 is down when compared to the December 31, 2010 balance at \$193,658 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)

#### Hydro Project Licensing:

We completed and submitted the draft hydropower project license application and draft environmental assessment to state and federal agencies for a 90 day review and comment period. Submitted the third preliminary permit application to FERC to maintain priority in the licensing application process. Developed and submitted preliminary 2011 fish & wildlife study plans. Reviewed agency comments on draft license application materials for next step actions. Scheduled and held agency meeting for application and process review deliberations.

#### Hydro Project Field Studies:

We continued hydrology gage site maintenance, monitoring and data downloads. Continued fisheries presence/absence observational surveys in Falls Lake and lower Cascade Creek. Continued April-June Rainbow Trout spawner surveys. Performed Eagle and raptor nest & activity survey. Spring mountain goat helicopter reconnaissance for presence/absence. Installed & maintain trail use cameras. Perform general wildlife presence/absence observations.

### 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							
	2011		2010			2009		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>Financial Results</b>								
Interest income	58	1,144	655	-	-	-	-	-
Net loss for period	230,475	1,063,827	294,660	181,826	155,496	105,699	33,987	27,278
Per share <sup>(1)</sup>	\$0.01	\$0.03	\$0.03	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Balance Sheet Data</b>								
Cash and cash equivalents	112,173	193,658	810,270	10,139	10,326	24,650	658	5,411
Total assets	188,655	262,133	852,427	29,181	35,352	60,660	138,208	122,668
Shareholder's equity	(570,665)	(373,795)	519,749	(620,673)	(438,848)	(305,109)	(189,688)	(155,701)

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

### LIQUIDITY AND SOLVENCY

As at March 31, 2011, the Company has a working capital deficit of \$113,752. 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.

### CAPITAL RESOURCES

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

# **Alaska Hydro Corporation (formerly Project Finance Corp.)**

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### **RECENT ACCOUNTING PRONOUNCEMENTS**

#### **Recent Accounting Pronouncements**

##### **a) Business Combinations**

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

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

##### **b) International Financial Reporting Standards ("IFRS")**

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

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

- 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. 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.

### **RELATED PARTY TRANSACTIONS**

#### **a) Due to Related Parties**

As at March 31, 2011, the Company has accrued \$76,458 (2010 - \$17,764) due to directors and companies controlled by directors or officers of the Company for legal, accounting and consulting services described in Note 11(b). The amounts are non-interest bearing, unsecured and due on demand.

#### **b) Transactions with Related Parties**

During the quarters ended March 31, 2011 and 2010, the Company had the following related party transactions:

- i) For the quarter ended March 31, 2011, the Company paid or incurred a total of \$32,093 (2010 - \$Nil) to a director for legal services and to a company controlled by an officer for CFO services.
- ii) For the quarter ended March 31, 2011, the Company paid or incurred a total of \$43,015 (2010 - \$53,764) to a company controlled by a director for consulting and engineering services relating to the Cascade Creek hydro electric project.
- iii) For the quarter ended March 31, 2011 the Company paid or incurred a total of \$19,500 (2010-\$Nil) to two directors for management services.
- iv) For the quarter ended March 31, 2011 the Company advanced its 100% owned subsidiary Cascade Creek LLC \$240,000 (2010-\$Nil)

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.

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#### **OUTSTANDING SHARE DATA – (Continued)**

On September 3, 2010, the Company closed a brokered private placement of 6,983,500 units at a price of \$0.1537 (C\$0.16) per unit for gross proceeds of \$1,073,249. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder, on exercise, to acquire one additional common share at an exercise price of \$0.3074 (C\$0.32) until September 3, 2015. No proceeds from the issuance of these units 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.

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 March 31, 2011, the Company is in the development stage and its continuing operations are dependent upon its ability to develop the hydro electric project, to raise sufficient financing and to obtain the required licenses from the US FERC. Upon receiving the FERC license, the Company may proceed to complete and construct the hydro electric project and to ultimately generate income and cash flows from operation of the project. The outcome of these matters cannot be predicted at this time.

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



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### TAXES

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

	March 31, 2011	Dec 31, 2010
Non-capital loss carry forwards	\$ 104,000	\$ 547,060
Share issuance costs	69,616	69,616
	\$ 173,616	\$ 616,676
Valuation allowance	(173,616)	(616,676)
Balance, end of year	\$ -	\$ -

As at March 31, 2011, the Company has approximately \$497,000 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 March 31, 2011, the Company has approximately \$1,580,000 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 deferred tax assets, management considers whether it is more likely than not that some portion of all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of deferred tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period.

### CDN GAAP to IFRS

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

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

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

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

### SUBSEQUENT EVENTS

Subsequent to the quarter end the Company issued an aggregate of C\$10,000 of Convertible Debentures. 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.

Subsequent to the quarter end the Company announced that Cascade, its wholly owned subsidiary, has recently received timely comments from regulatory agencies including FERC regarding the Draft License Application ("DLA"), and the Preliminary Draft Environmental Assessment ("PDEA"), both submitted last February. The comments received provide clear direction for remaining study requirements. Cascade will be meeting with agencies in mid-June and thereafter to 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 third Preliminary Permit application to FERC with no competitive application filed by any other entity.