

ALASKA HYDRO CORPORATION

**CONSOLIDATED
FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED
DECEMBER 31, 2013 AND 2012**



INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Alaska Hydro Corporation

We have audited the accompanying consolidated financial statements of Alaska Hydro Corporation which comprise the consolidated balance sheets as at December 31, 2013 and 2012, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained based on our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Alaska Hydro Corporation as at December 31, 2013 and 2012, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates the existence of a material uncertainty that casts significant doubt on the ability of Alaska Hydro Corporation to continue as a going concern.

Manning Elliott LLP

CHARTERED ACCOUNTANTS
Vancouver, British Columbia
May 10, 2014

Alaska Hydro Corporation

Consolidated Balance Sheets

As at December 31, 2013 and 2012

(in US Funds)

	2013	2012
ASSETS		
Current assets:		
Cash	\$ 395	\$ 12,717
Amounts receivable	3,856	2,528
Prepaid expenses and deposits	4,600	4,600
	<u>8,851</u>	<u>19,845</u>
Equipment (note 4)	2,547	8,349
	<u>\$ 11,398</u>	<u>\$ 28,194</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (note 11)	383,995	251,006
Due to related party (note 11)	33,565	116,948
Current portion of convertible debentures (note 6)	245,715	-
	<u>663,275</u>	<u>367,954</u>
Unearned income (note 12)	250,000	250,000
Convertible debentures (note 6)	-	248,274
	<u>250,000</u>	<u>498,274</u>
Shareholders' equity (deficiency):		
Equity component of convertible debenture (note 6)	31,891	31,891
Share capital (note 7)	3,015,605	3,001,276
Contributed surplus (note 7)	831,280	831,280
Accumulated other comprehensive income	73,198	14,091
Deficit	(4,853,851)	(4,716,572)
	<u>(901,874)</u>	<u>(838,034)</u>
	<u>\$ 11,398</u>	<u>\$ 28,194</u>

Nature of operations (note 1)

Commitments (notes 7 and 12)

Subsequent events (note 13)

On behalf of the Board on May 12, 2014

Signed "*Clifford A. Grandison*" _____ Co-Chairman & Interim CEO

Signed: "*M. E. Hoole*" _____ Chairman of the Audit Committee

The accompanying notes are an integral part of these consolidated financial statements

Alaska Hydro Corporation

Consolidated Statements of Loss and Comprehensive Loss

For the Years Ended December 31, 2013 and 2012

(in US Funds)

	2013	2012
Hydro project expenditures (note 5)	\$ -	\$ 895
General and administrative		
Professional fees	29,887	77,925
Share-based compensation	-	12,799
Accretion expense	13,704	13,283
Interest on convertible debentures	30,340	31,783
Office administration	790	3,317
Investor relations	1,791	1,779
Transfer agent, filing and sustaining fees	17,653	18,780
Depreciation	5,802	5,802
	99,965	165,468
Loss before other items	99,965	166,363
Other income (expense):		
Gain on forgiveness of debt (note 11)	-	152,930
Foreign exchange loss	(37,314)	-
Interest income and other	-	5
Net loss for the year	(137,279)	(13,428)
Currency translation adjustment	59,107	(11,241)
Comprehensive loss for the year	\$ (78,172)	\$ (24,669)
Net loss per share - basic and diluted	\$ -	\$ -
Weighted average number of common shares outstanding	40,971,804	39,484,496
Common shares outstanding at end of year	41,070,853	40,367,853

The accompanying notes are an integral part of these consolidated financial statements

Alaska Hydro Corporation

Consolidated Statements of Changes in Equity
For the Years Ended December 31, 2013 and 2012
(in US Funds)

	2013	2012
Equity component of convertible debenture (note 6)		
Beginning of year	\$ 31,891	\$ 31,891
Issued	-	-
End of year	31,891	31,891
Share capital (note 7)		
Beginning of year	3,001,276	2,888,939
Shares issued for interest	14,546	31,746
Shares issued for private placement	-	81,235
Share issue costs	(217)	(644)
End of year	3,015,605	3,001,276
Contributed surplus (note 7)		
Beginning of year	831,280	818,481
Share-based compensation	-	12,799
End of year	831,280	831,280
Accumulated other comprehensive income		
Beginning of year	14,091	25,332
Currency translation adjustment	59,107	(11,241)
End of year	73,198	14,091
Deficit		
Beginning of year	(4,716,572)	(4,703,144)
Net loss for the year	(137,279)	(13,428)
End of year	(4,853,851)	(4,716,572)
Total equity	\$ (901,874)	\$ (838,034)

The accompanying notes are an integral part of these consolidated financial statements

Alaska Hydro Corporation

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2013 and 2012

(in US Funds)

	2013	2012
Cash flows provided by (used in):		
Operating activities:		
Loss for the year	\$ (137,279)	\$ (13,428)
Items not affecting cash:		
Depreciation	5,802	5,802
Accretion expense	13,704	13,283
Share-based compensation	-	12,799
Gain on forgiveness of debt	-	(152,930)
	(117,773)	(134,474)
Changes in non-cash working capital items:		
Amounts receivable and prepaid	(1,328)	5,921
Accounts payable and accrued liabilities	71,871	(23,222)
Cash used in operating activities	(47,230)	(151,775)
Financing activities:		
Shares issued for private placement	-	81,235
Share issue costs	(217)	(644)
Loans from related parties	34,668	56,881
Cash (used in) provided by financing activities	34,451	137,472
Effect of foreign exchange on cash flows	457	(11,241)
Change in cash during the year	(12,322)	(25,544)
Cash - beginning of year	12,717	38,261
Cash - end of year	\$ 395	\$ 12,717
Non-cash investing and financing activities		
Shares issued for interest	\$ 14,546	\$ 31,746

The accompanying notes are an integral part of these consolidated financial statements

Alaska Hydro Corporation

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2013 and 2012
(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”.

The Company incurred a net loss of \$137,279 (2012 - \$13,428) for the year ended December 31, 2013, and had an accumulated deficit of \$4,853,851 (2012 - \$4,716,572) at December 31, 2013 which has been funded primarily by the issuance of equity. The Company does not have a project ongoing and its ability to continue as a going concern is dependent upon its ability to attract and develop projects, to raise sufficient financing and to obtain the required licenses for any 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.

On September 24, 2012 the Company reported that the US Federal Energy Regulatory Commission (“FERC”) has issued an order denying rehearing of Cascade’s Preliminary Permit Application for development of the Cascade Creek Hydroelectric Project (“the Project”). Notwithstanding there was a provision in the Order that would allow the company to continue to pursue the FERC pre-filing requirements to prepare a license application, after careful consideration the Company determined that the probability of obtaining site control, in a form which would allow the Company to raise additional funds to pursue the Project was unlikely. On November 9, 2012 the Company announced its intention to abandon any further effort to develop the Cascade Creek hydropower project in Thomas Bay Alaska. The Company acquired the Project in 2010 and has spent \$2,768,000 on the Project in an effort to produce a completed application for a FERC hydropower project licence.

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, and other project implementation costs, accordingly, there is significant doubt about the Company’s ability to continue as a going concern. These consolidated 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.

Alaska Hydro is a British Columbia corporation with its head office located at 2633 Carnation Street North Vancouver, British Columbia, Canada V7H 1H6.

Alaska Hydro Corporation

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2013 and 2012
(In US Dollars)

2. BASIS OF PREPARATION

a) Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The Company has consistently applied the same accounting policies throughout all periods presented.

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 which as at December 31, 2013 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.

3. 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 depreciated 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. As at December 31, 2013 and 2012, the Company had no cash equivalents.

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.

Alaska Hydro Corporation

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2013 and 2012
(In US Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Foreign Currency Translation

The functional currency of Alaska Hydro, the parent entity, and Cascade, the subsidiary, is the Canadian dollar. The presentation currency of the consolidated financial statements is the US dollar.

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.

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 loss and comprehensive loss 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.

On January 1, 2013, the Company changed its functional currency from the US dollar to the Canadian dollar for its subsidiary, since it no longer had any significant US dollar denominated operations. The effect of this change is applied prospectively from that date. The reporting currency of the Company continues to be US dollars. The effect of this change does not impact the consolidated financial statements significantly other than the impact on other comprehensive income and net loss.

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 December 31, 2013 and 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 years ended December 31, 2013 and 2012, basic and diluted net loss per share are the same because all potential dilutive shares are anti-dilutive.

Alaska Hydro Corporation

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2013 and 2012
(In US Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

k) Use of Estimates and Judgements

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 expected life of equipment, expected future tax rates and the utilization of deferred 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. Management has applied its judgement in the following areas: evaluating the Company’s going concern prospects, determining to abandon its Cascade Creek Hydroelectric project and determining the Company’s functional and reporting currencies.

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, accounts payable, 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 at FVTPL. A financial instrument is classified at FVTPL if it is held for trading or is designated as such upon initial recognition. Transaction costs associated with financial instruments classified at FVTPL are expensed as incurred. Financial instruments at FVTPL are measured at fair value and changes therein are recognized in income.

Alaska Hydro Corporation

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2013 and 2012
(In US Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Financial liabilities

The Company has classified its accounts payable, amounts due to related parties, and convertible debentures as other financial liabilities. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire. Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

m) Share-based compensation

The Company records all share-based payments at fair value. Share-based 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. Where equity instruments are granted to non-employees, they are recorded at the fair value of goods or services received in the Statements of Loss and Comprehensive Loss. When the value of goods or services cannot be reliably estimated, the Black-Scholes Option Pricing Model is used. Compensation expense for share options granted to non-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. On exercise of stock options, consideration paid together with fair value amount previously credited to contributed surplus is recorded as share capital.

n) Recent accounting pronouncements adopted

The mandatory adoption of the following new and revised accounting standards and interpretations on January 1, 2013 had no significant impact on the Company's financial statements for the periods presented.

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 Financial Statements
For the Years Ended December 31, 2013 and 2012
(In US Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (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.

Each of the new standards, IFRS 10 to 13, IFRIC 20 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.

o) New Accounting Standards Issued but Not Yet Effective

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the International Financial Reporting Interpretations Committee (“IFRIC”) that are mandatory for accounting periods noted below. Some updates that are not applicable or are not consequential to the Company have been excluded from the list below.

New accounting standards effective January 1, 2014

IAS 36 Impairment of Assets - In May 2013, the IASB issued an amendment to address the disclosure of information about the recoverable amount of impaired assets or a CGU for periods in which an impairment loss has been recognized or reversed. The amendments also address disclosure requirements applicable when an asset’s or a CGU’s recoverable amount is based on fair value less costs of disposal. Management is currently evaluating the impact the final interpretation is expected to have on the Company’s consolidated financial statements.

IFRIC 21 Levies - In May 2013, the IASB issued IFRIC 21, Levies (“IFRIC 21”), an interpretation of IAS 37, Provisions, Contingent Liabilities and Contingent Assets (“IAS 37”), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (“obligating event”). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. Management is currently evaluating the impact the final interpretation is expected to have on the Company’s consolidated financial statements.

Alaska Hydro Corporation

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2013 and 2012
(In US Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

New accounting standards effective January 1, 2015 (continued)

The IASB extended the mandatory effective date for IFRS 9 to on or after January 1, 2015 with early adoption permitted. As a result, there were amendments to IAS 32, Financial Instruments – Presentation to clarify the offsetting between financial assets and liabilities, which are mandatory effective on or after January 1, 2014. 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.

4. EQUIPMENT

Cost	Equipment
As at December 31, 2012	\$ 29,012
Additions	–
As at December 31, 2013	\$ 29,012
Accumulated Depreciation	
As at December 31, 2012	\$ 20,663
Depreciation	5,802
As at December 31, 2013	\$ 26,465
Carrying Amounts	
Balance, December 31, 2012	\$ 8,349
Balance, December 31, 2013	\$ 2,547

Alaska Hydro Corporation

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2013 and 2012
(In US Dollars)

5. POWER PROJECTS

Cascade Creek

The Project was 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 was estimated to generate an approximate average of 204 GW.h per year of renewable energy plus some storage capacity. The Cascade Creek project was part of the Thomas Bay project initiative, which consisted 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.

On September 24, 2012 the Company reported that the US Federal Energy Regulatory Commission (“FERC”) issued an order denying rehearing of Cascade’s Preliminary Permit Application for development of the Cascade Creek Hydroelectric Project (“the Project”). Notwithstanding there was a provision in the order that would allow the company to continue to pursue the FERC pre-filing requirements to prepare a license application, after careful consideration the Company determined that the probability of obtaining site control, in a form which would allow the Company to raise additional funds to pursue the Project was unlikely. On November 9, 2012 the Company announced its intention to abandon any further effort to develop the Cascade Creek hydropower project in Thomas Bay Alaska. The Company acquired the Project in 2010 and has spent \$2,768,000 on the Project in an effort to produce a completed application for a FERC hydropower project licence.

6. CONVERTIBLE DEBENTURES

	Dec 31 2013	Dec 31 2012
Convertible debentures with a face value of C\$89,000, bearing interest at 12%, unsecured and due on January 21, 2014	C\$ 88,366	C\$ 82,653
Convertible debentures with a face value of C\$90,000, bearing interest at 12%, unsecured and due on February 9, 2014	89,290	84,756
Convertible debentures with a face value of C\$75,000, bearing interest at 12%, unsecured and due on March 22, 2014	73,878	70,232
Convertible debentures with a face value of C\$10,000, bearing interest at 12%, unsecured and due on May 2, 2014	9,808	9,367
Liability component of convertible debentures	261,342	247,008
Less: current portion	C\$ (261,342)	C\$ -
Less: current portion	US\$ (245,715)	US\$ -
Long-term portion, end of year	C\$ -	C\$ 247,008
Long-term portion, end of year	US\$ -	US\$ 248,274

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 original 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.

Alaska Hydro Corporation

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2013 and 2012
(In US Dollars)

6. CONVERTIBLE DEBENTURES

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 year ended December 31, 2013:

Liability component		Dec 31, 2013		Dec 31, 2012
Balance, beginning year	C\$	247,008	C\$	233,762
Accretion		14,334		13,246
Balance, end of period		261,342		247,008
Less: current portion	C\$	(261,342)	C\$	-
Less: current portion	US\$	(245,715)	US\$	-
Long-term portion, end of period	C\$	-	C\$	247,008
Long-term portion, end of period	US\$	-	US\$	248,274

Equity component		Dec 31, 2013		Dec 31, 2012
Balance, beginning and end of year	C\$	31,409	C\$	31,409
Balance, end of year	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
	US\$	280,790

7. SHARE CAPITAL

(a) **Authorized:** 100,000,000 common shares without par value.

(b) **Issued and Outstanding:**

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	Number of Shares	Share Capital	Contributed Surplus
Balance December 31, 2011	37,987,414	\$ 2,888,939	\$ 818,481
(1) Shares issued for non brokered private placement	1,600,000	81,235	-
(2) Shares issued for interest	780,439	31,746	-
Share issue costs	-	(644)	-
tions	-	-	12,799
Balance December 31, 2012	40,367,853	\$ 3,001,276	\$ 831,280
(3) Shares issued for interest	703,000	14,546	-
Share issue costs	-	(217)	-
Balance December 31, 2013	41,070,853	\$ 3,015,605	\$ 831,280

- (1) 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. None of the receipt were allocated to warrants as they had no intrinsic value at the time the units were issued.
- (2) During the year ending December 31, 2012 the Company has elected to pay accrued interest on Convertible Debentures (Note 6) 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 780,439 shares for \$31,746 interest.
- (3) During the year ending December 31, 2013 the Company elected to pay accrued interest on Convertible Debentures (Note 6) 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 703,000 shares for \$14,546 interest.

The Company currently does not have sufficient cash to repay the convertible debentures described in Note 6, which may result in the Company being required to issue further shares upon conversion.

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7. SHARE CAPITAL (continued)

(c) Shares Held in Escrow:

At December 31, 2013, there were 18,750 issued and outstanding common shares held in escrow.

(d) Warrants:

The current balance of outstanding warrants is as follows:

	Weighted Average		
	Exercise Price		Warrants
Balance December 31, 2011	C\$	0.19	16,399,935
Issued		0.10	1,600,000
Expired		0.12	(648,830)
Balance December 31, 2012		0.18	17,351,105
Cancelled		-	(6,000,000)
Expired		0.16	(29,063)
Balance December 31, 2013	C\$	0.28	11,322,042

The current balance of outstanding warrants by expiration date is as follows:

	Weighted Average		
	Exercise Price		Warrants
September 3, 2015	C\$	0.32	9,483,500
April 25, 2017		0.10	1,600,000
No expiration		-	238,542
Balance December 31, 2013	C\$	0.28	11,322,042

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7. 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 plan has been amended to 20% of the Company's issued and outstanding shares subject to the approval of the TSX-V, which has yet to be attained.

The current balance of outstanding options is as follows:

	Weighted Average Exercise Price (C\$)	Options
Balance December 31, 2011	0.16	2,700,000
Cancelled	0.16	(375,000)
Balance December 31, 2012	0.16	2,325,000
Expired	0.10	(140,000)
Balance December 31, 2013	0.16	2,185,000

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
December 1, 2015	1,750,000	1,750,000	0.16	2.0 years
July 22, 2016	100,000	100,000	0.12	2.7 years
August 18, 2016	60,000	60,000	0.18	2.8 years
September 20, 2016	275,000	275,000	0.16	2.9 years
Balance December 31, 2013	2,185,000	2,185,000	0.16	2.3 years

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8. 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.

9. DEFERRED INCOME TAXES

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

	2013	2012
Combined statutory tax rate	34 %	34 %
Income tax recovery on net loss at statutory rate	\$ 46,675	\$ 4,565
Permanent differences and other	(3,486)	4,459
Reduction in tax recovery due to lower taxes in Canada	(309)	(3,209)
Difference between current and future rate	-	-
Change in unrecognized deferred tax assets	(42,880)	(5,815)
Income tax recovery	\$ -	\$ -

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

Non-capital loss carry forwards	\$ 382,105	\$ 348,118
Development costs	514,919	514,919
Share issuance costs	15,226	33,334
	912,250	869,371
Unrecognized deferred tax assets	(912,250)	(869,371)
Balance, end of year	\$ -	\$ -

As at December 31, 2013, the Company has approximately C\$1,200,000 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 December 31, 2013, the Company has approximately \$590,000 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 December 31, 2013, the Company has approximately \$1,515,000 of development costs available to reduce taxable income for future years in the United States.

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9. DEFERRED INCOME TAXES (continued)

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.

10. FINANCIAL INSTRUMENTS AND RISK

Financial Instruments

As at December 31, 2013, the Company's financial instruments consist of cash, accounts payable, convertible debt and amounts due to related parties.

Liquidity Risk

All of the Company's current 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 at the date of these consolidated financial statements, including planned corporate and administrative expenses, and other project implementation costs. 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.

Foreign Exchange Risk

The Company does monitor its foreign exchange risk. Some of the Company's transactions are in US funds whereas the equity based sources of capital are in Canadian dollars.

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.

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

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10. FINANCIAL INSTRUMENTS AND RISK (continued)

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 Dec 31, 2013
Cash	\$ 395	\$ —	\$ —	\$ 395

11. RELATED PARTY TRANSACTIONS AND BALANCES

a) Due to Related Parties

As at December 31, 2013, the Company had \$156,345 (December 31, 2012 - \$116,948) due to directors and companies controlled by directors or officers of the Company for loans, engineering and consulting services. The amounts are non-interest bearing, unsecured and due on demand.

b) Transactions with Related Parties

During the year ended December 31, 2013 and 2012, the Company had the following related party transactions:

- i) For the year ended December 31, 2013, the Company paid or incurred a total of \$Nil (2012 - \$45,163) to a director for legal services and to a company controlled by an officer for CFO services.
- ii) The remuneration of the Company's directors and certain officers is comprised as follows:

	Dec 31, 2013	Dec 31, 2012
Management fees	\$ —	\$ 9,004
Share-based compensation	—	12,799
Total	\$ —	\$ 21,803

- iii) For the year ended December 31, 2012, the Company settled debt owing to related parties totalling \$152,930 resulting in a gain on forgiveness of debt.

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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12. 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 of refusal to purchase 1% of the net output from the Company for a period of 25 years at the break even production cost.

As consideration for the right of refusal the City advanced a payment of \$250,000 to the Company in 2009. In the event the Company defaults on certain 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.

13. SUBSEQUENT EVENTS

- a) The Company entered into a Settlement Agreement with Whitewater Engineering Corporation ("Whitewater") on February 2014 with respect to unpaid invoices totaling \$116,460. The Company agreed to transfer to Whitewater ownership of four stream gages, two aluminum skiffs, and transfer title of a \$4,600 deposit to discharge the obligation.
- b) Subsequent to the year end 14,992,615 common shares and 238,542 special warrants were surrendered to the Company from shareholders of the Company, resulting in 40,871,804 common shares outstanding, of which 25,879,189 common shares are not owned by the Company.