HS Orka hf.

Condensed Interim Financial Statement
Nine months ended 30 September 2013
ISK (000's)

HS Orka hf.
Brekkustígur 36
260 Reykjanesbær

Reg. no. 680475-0169

Contents

Endorsement by the Board of Directors and the Management

The condensed interim financial statements of HS Orka hf. (the Company) for the period from 1 January to 30 September 2013 are prepared in accordance with the International Accounting Standard, IAS 34, *Interim Financial Reporting* .

According to the statement of comprehensive income, the Company's operating revenue amounted to ISK 5,142 million for the first nine months of 2013 (2012: ISK 4,954 million) and the loss for the period amounted to ISK 302 million (2012: ISK 1,115 million profit). Total comprehensive loss amounted to ISK 359 million (2012: ISK 1,081 comprehensive Income). According to the statement of financial position, the Company's assets amounted to ISK 46,268 million at the end of September 2013 (at year end 2012: ISK 49,826 million). Equity amounted to ISK 26,095 million at the end of September 2013 (at year end 2012: ISK 26,605 million) or 56.4% of total capital (at year end 2012: 53.4%).

To the best knowledge of the Board of Directors and the Management, the Company's condensed interim financial statements are in accordance with International Financial Reporting Standards as adopted by the EU and it is the opinion of the Board of Directors and the Management that the condensed interim financial statements give a true and fair view of the Company's assets, liabilities and financial position as at 30 September 2013, its financial performance, and the changes in cash flows in the period from 1 January to 30 September 2013.

Furthermore, it is the opinion of the Board of Directors and the Management that the condensed interim financial statements and endorsement by the Board of Directors and the Management contain a fair overview of the Company's financial development and performance, its position and describe the main risk factors and uncertainties faced by the Company.

The Board of Directors and the Management of HS Orka hf. have today approved the Company's condensed interim financial statements for the period from 1 January to 30 September 2013 and confirmed by means of their signatures.

Reykjanesbær, 12 November 2013.

The Board of Directors:

Ásgeir Margeirsson
Chairman of the board

Gylfi Árnason

Lynda Freeman

Anna Skúladóttir

Ross Beaty

Managing Director:
Júlíus Jónsson

Assistant Managing Director:
Albert Albertsson

Independent Auditors' Review Report

To the Board of Directors of HS Orka hf.

We have reviewed the accompanying statement of financial position of HS Orka hf. as of 30 September 2013 and the related statements of comprehensive income, changes in equity and cash flows for the nine-month period then ended and a summary of significant accounting policies and other explanatory information. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with IAS 34 *Interim Financial Reporting.* Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity.* A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting.*

Reykjavík, 12 November 2013

KPMG ehf.

Sæmundur Valdimarsson
Margret G. Flóvenz

Statement of Comprehensive Income
for the nine months ended 30 September 2013

	Note	2013 Q3	2012 Q3	2013 Jan-Sep	2012 Jan-Sep
Operating revenue	5	1.551.943	1.488.393	5.142.040	4.954.223
Production cost and cost of sales		(1.194.939)	(1.006.002)	(3.906.764)	(3.315.996)
Gross profit		357.004	482.391	1.235.276	1.638.227
Other operating expenses	6	(70.112)	(84.017)	(306.063)	(295.663)
Results from operating activities		286.892	398.374	929.213	1.342.564
Finance income		88.393	85.462	1.284.913	227.295
Finance costs		(234.697)	(222.906)	(392.149)	(737.226)
Changes in fair value of swap contracts		11.537	21.062	346.265	84.869
Changes in fair value of embedded derivatives		907.089	1.790.198	(3.043.279)	262.280
Net finance income (expenses)	7	772.322	1.673.816	(1.804.250)	(162.782)
Share of profit of associates		266.067	117.826	398.478	171.296
Profit (loss) before income tax		1.325.282	2.190.016	(476.559)	1.351.078
Income tax (expense) recovery		(211.842)	(414.437)	175.008	(235.956)
Profit (loss) for the period		1.113.439	1.775.579	(301.551)	1.115.122
Other comprehensive income					
Items that will never be reclassified to profit or loss					
Remeasurement of defined benefit liability		(2.682)	(4.907)	(36.173)	(55.640)
Tax on items that will never be reclassified to profit or loss		536	981	7.235	11.128
		(2.146)	(3.926)	(28.938)	(44.512)
Items that may be reclassified subsequently to profit or loss					
For currency translation difference of associates		9.758	9.464	(28.722)	10.113
Other comprehensive income (loss), net of tax		7.612	5.538	(57.660)	(34.399)
Total comprehensive income (loss) for the period		1.121.051	1.781.117	(359.211)	1.080.723
Earnings per share					
Basic and diluted earnings (loss) per share		0,14	0,23	(0,04)	0,15

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Statement of Financial Position
as at 30 September 2013

Assets	Note	30.9.2013	31.12.2012
Operating assets		31.200.910	31.494.192
Operating assets under construction		4.031.659	3.664.287
Intangible assets		994.281	990.063
Investments in associates		903.717	740.937
Investments in other companies		27.075	27.075
Bonds		307.628	363.028
Embedded derivatives in power sales contracts		1.297.820	4.071.213
Prepaid lease and royalty fee		489.046	475.166
Long term receivable		335.564	289.646
Total non-current assets		39.587.700	42.115.607
Inventories		422.524	414.088
Bonds		79.983	78.740
Trade and other receivables		972.038	1.234.576
Embedded derivatives in power sales contracts		0	189.458
Short term investments		352.107	565.800
Cash and cash equivalents	8	4.853.461	5.227.728
Total current assets		6.680.113	7.710.390
Total assets		46.267.813	49.825.997
Equity			
Share capital		7.841.124	7.841.124
Share premium		7.038.856	7.038.856
Translation reserve		305.743	334.465
Revaluation reserve		6.217.865	6.443.110
Retained earnings		4.691.905	4.947.149
Total equity		26.095.493	26.604.704
Liabilities			
Loans and borrowings		13.479.115	16.007.219
Pension obligations		1.800.000	1.726.700
Deferred tax liability		643.735	825.978
Currency and interest rate swap contracts		385.926	677.508
Total non-current liabilities		16.308.776	19.237.405
Loans and borrowings		2.289.254	2.381.334
Trade and other payables		1.088.080	1.142.085
Embedded derivatives in power sales contracts		80.429	0
Currency and interest rate swap contracts		405.781	460.469
Total current liabilities		3.863.544	3.983.888
Total liabilities		20.172.320	23.221.293
Total equity and liabilities		46.267.813	49.825.997

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Statement of Changes in Equity
for the nine months ended 30 September 2013

	Share capital	Share premium	Translation reserve	Revaluation reserve	Retained earnings	Total
1 January - 30 September 2012						
Equity at 1 January 2012	6.962.919	3.218.660	297.542	1.647.187	4.270.960	16.397.268
Profit for the period					1.115.122	1.115.122
Other comprehensive income (loss)			10.113		(44.512)	(34.399)
Total comprehensive income			10.113		1.070.610	1.080.722
Revaluation reserve transferred to retained earnings				(57.203)	57.203	0
Share capital increase	878.205	3.820.195				4.698.401
Equity at 30 September 2012	7.841.124	7.038.855	307.655	1.589.984	5.398.773	22.176.391
1 January - 30 September 2013						
Equity at 1 January 2013	7.841.124	7.038.856	334.465	6.443.110	4.947.149	26.604.704
Loss for the period					(301.551)	(301.551)
Other comprehensive loss			(28.722)		(28.938)	(57.660)
Total comprehensive loss			(28.722)		(330.489)	(359.211)
Revaluation reserve transferred to retained earnings				(225.245)	225.245	0
Dividends declared ISK 0.02 per share ..					(150.000)	(150.000)
Equity at 30 September 2013	7.841.124	7.038.856	305.743	6.217.865	4.691.905	26.095.493

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Statement of Cash Flows
for the nine months ended 30 September 2013

	Note	2013 YTD	2012 YTD
Cash flows from operating activities			
(Loss) profit for the period		(301.551)	1.115.122
Adjustments:			
Profit (loss) on sale of operating assets		16	(4.553)
Increase in pension obligations		37.127	79.654
Depreciation and amortization		977.488	747.280
Net finance expenses	7	1.804.250	162.782
Share of profit of associates		(398.478)	(171.296)
Income tax (recovery) expense		(175.008)	235.956
		1.943.844	2.164.945
Inventories, increase		(8.436)	(37.244)
Receivables, decrease		306.316	157.763
Current liabilities, decrease		(80.441)	(205.340)
Net cash from operations before interest and taxes		2.161.283	2.080.124
Interest income received		178.314	138.011
Interest and indexation costs paid		(339.944)	(345.907)
Net cash from operating activities		1.999.653	1.872.228
Cash flows from investing activities			
Acquisition of operating assets during the year		(1.041.689)	(346.940)
Payments for operating assets acquired in prior year		0	(174.394)
Proceeds from sale of operating assets		950	5.518
Acquisition of intangible assets		(15.073)	(17.743)
Acquisition of shares in associates		(18.000)	(35.156)
Sale of shares in associates		7.877	0
Dividend received from associates		217.100	161.805
Proceeds from sale (investment) of marketable securities		232.411	(550.000)
Proceeds from repayment of bonds		82.624	78.514
Net cash used in investing activities		(533.800)	(878.396)
Cash flows from financing activities			
Share capital increase		0	4.698.401
Repayment of borrowings		(1.636.220)	(1.530.905)
Paid dividends		(150.000)	0
Net cash (used in) provided by financing activities		(1.786.220)	3.167.496
(Decrease) Increase in cash and cash equivalents		(320.366)	4.161.328
Cash and cash equivalents at 1 January		5.227.728	1.304.713
Effect of exchange rate fluctuations on cash held		(53.901)	13.148
Cash and cash equivalents at 30 September		4.853.461	5.479.189
Investing and financing activities not affecting cash flows			
Dividend from associate		0	18.502
Current receivables		0	(3.701)
Acquisition of shares in associate		0	(14.801)

Notes on pages 9 to 14 are an integral part of these condensed interim financial statements

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Notes to the Condensed Interim Financial Statements

1. Reporting entity

HS Orka hf. is a limited liability company domiciled in Iceland. The Company's registered office address is Brekkustígur 36, Reykjanesbær, Iceland. The Company generates and sells electricity and hot water for heating. The condensed interim financial statements as at and for the nine months ended 30 September 2013 comprise the Company and its interest in associates. The Company is a subsidiary of Magma Energy Sweden AB. The financial statements of the Company are part of the consolidated financial statements of the ultimate parent company Alterra Power Corp., headquartered in Canada.

The Company's financial statements can be found at its website www.hsorka.is and at the website of the Icelandic Stock Exchange; www.nasdaqomxnordic.com.

2. Statement of compliance

This condensed interim financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* and are prepared in accordance with IFRS issued and outstanding of 12 November 2013. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the last annual consolidated financial statements as at and for the year ended 31 December 2012. This condensed consolidated interim financial report does not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards and should be read in conjunction with the Financial Statements of 31 December 2012.

These condensed interim financial statements were approved by the Board of Directors on 12 November 2013.

3. Significant accounting policies

Except as described below, the accounting policies applied by the Company in these condensed interim financial statements are the same as those applied by the Company in its financial statements as at and for the year ended 31 December 2012.

These condensed interim financial statements are prepared in Icelandic krona, which is the company's functional currency and all amounts have been rounded to the nearest thousand. They are based on historical cost, except for the following:

- a part of operating assets is recognized at revalued cost, which was the fair value at the revaluation dates of 1.1.2008 and 31.12.2012
- derivative financial instruments are measured at fair value
- embedded derivatives in electric power sales contracts are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value

Changes in accounting policies

The Company has adopted all new standards and amendments to standards with a date of initial application prior to or on 1 January 2013 that have been approved by the EU. Of those standards and amendments the following had effects on these financial statments.

IFRS 13, *Fair Value Measurement*
IAS 19, *Employee benefits*
Presentation of Items of Other Comprehensive income (Amendments to IAS 1)

3. Significant accounting policies, continued

i) IFRS 13

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 F*inancial Instruments: Disclosures* . Some of the disclosures are specifically required in interim financial statements for financial instruments; accordingly, the Company has included additional disclosures in this regard.

In accordance with the transitional provisions of IFRS 13, the Company has applied the new fair value measurement guidance prospectively, and has not provided any comparative information for disclosures that were not previously required. Notwithstanding the above the change had no impact on the measurement of the Company assets and liabilities.

ii) IAS 19

As a result of IAS 19 (2011), the Company has changed its accounting policy with respect to presentation of income or expense related to defined benefit pension plans.

Under IAS 19 (2011) it is required to present actuarial gains and losses in other comprehensive income. Comparatives have been restated to reflect the new accounting policy. The effects of the change were that production cost and cost of sales in the first nine months of 2012 decreased by ISK 16 million (Q3: ISK 2 million), other operating expenses decreased by ISK 39 million (Q3 ISK 3 million) and income tax expense decreased by ISK 11 million in the first nine months of 2012 (Q3: expense increased by ISK 1 million). As a result other comprehensive loss increased by ISK 45 million in the first nine months of 2012 (Q3: other comprehensive income decreased by ISK 4 million).

iii) Presentation of Items of Other Comprehensive income

As a result of amendments to IAS 1, the Company has modified the presentation of items of other comprehensive income in its statement of comprehensive income, to present separately items that would be reclassified to profit or loss in the future from those that never would be. Comparative information has also been re-presented accordingly.

The adoption of the amendments to IAS 1 has no impact on the recognised assets, liabilities and comprehensive income of the Company.

4. Use of estimates and judgments

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key source of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2012.

5. Segment reporting

The Company has three operating segments that are described below:

Power Production

Includes production and sale of electricity, heating water and fresh water from subterranean steam.

Electricity Sale

Includes purchases and sale of electricity to users other than mass users and power companies.

Other

Includes sale of service, rental of facilities and equipment, and other sales.

1 January - 30 September 2013	**Power production**	**Electricity sale**	**Other**	**Total**
External revenue	2.247.378	2.178.020	716.642	5.142.040
Inter-segment revenue	1.037.494			1.037.494
Total segment revenue	3.284.872	2.178.020	716.642	6.179.534
Segment operating results	609.698	274.173	45.342	929.213
Unallocated items				
Net finance expenses				(1.804.250)
Share of profit of associates				398.478
Income tax recovery				175.008
Loss for the period				(301.551)
Segment assets	35.640.526	45.129	541.195	36.226.850
Unallocated assets				10.040.963
Total assets				46.267.813
Unallocated liabilities				20.172.320
Capital expenditures	1.047.092	1.404	8.266	1.056.762
Depreciation and amortization	948.370	4.044	25.074	977.488

1 January - 30 September 2012	**Power production**	**Electricity sale**	**Other**	**Total**
External revenue	2.278.271	1.924.079	751.873	4.954.223
Inter-segment revenue	1.024.048			1.024.048
Total segment revenue	3.302.319	1.924.079	751.873	5.978.271
Segment operating results	1.063.898	226.106	52.560	1.342.564
Unallocated items				
Net finance expenses				(162.782)
Share of profit of associates				171.296
Income tax expense				(235.956)
Profit for the period				1.115.122
Segment assets	29.332.967	49.801	564.186	29.946.954
Unallocated assets				14.285.896
Total assets				44.232.850
Unallocated liabilities				22.056.456
Capital expenditures	353.612	2.720	8.351	364.683
Depreciation and amortization	717.673	4.218	25.389	747.280

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Notes, continued

5. Segment reporting, contd.:

Major customers

Revenues from one customer of the Company's Production segment represents approximately ISK 1,383 million of the Company's total revenues during the period (1.1.2012 - 30.9.2012: ISK 1,536 million).

Revenues from HS Veitur hf. represents ISK1,402 million during the period (1.1.2012 - 30.9.2012: ISK 1,308 million) and relates to segments as follows:

	Power production	Electricity sale	Other	Total
Revenues 1.1. - 30.9.2013	578.714	188.928	634.523	1.402.165
Revenues 1.1. - 30.9.2012	511.707	163.692	632.758	1.308.157

6. Other operating expenses

Operating expenses specifies as follows:

	2013 Q3	2012 Q3	2013 YTD	2012 YTD
Salaries and related expenses	38.283	34.181	121.946	113.879
Change in pension fund commitment	4.511	6.044	16.556	20.062
Administrative expenses	24.696	40.920	157.738	151.493
Depreciation and amortization	2.622	2.872	9.823	10.229
Total operating expenses	70.112	84.017	306.063	295.663

7. Net finance expenses

Net finance expenses specifies as follows:

	2013 Q3	2012 Q3	2013 YTD	2012 YTD
Interest income on cash, loans and receivables	76.718	80.879	229.578	193.859
Net foreign exchange gain	0	0	1.008.149	0
Fair value changes on financial assets through profit or loss	11.675	4.583	47.186	33.436
Total finance income	88.393	85.462	1.284.913	227.295
Interest expense	(103.796)	(131.766)	(320.301)	(398.744)
Indexation	(13.245)	10.111	(71.848)	(89.205)
Net foreign exchange loss	(117.656)	(101.250)	0	(249.276)
Total finance costs	(234.697)	(222.905)	(392.149)	(737.225)
Fair value changes of currency and interest rate swap contracts	11.537	21.062	346.265	84.869
Fair value changes of embedded derivatives in electric power sale contracts	907.089	1.790.198	(3.043.279)	262.280
Net finance expenses	772.322	1.673.817	(1.804.250)	(162.781)

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8. Restricted cash

At the end of September 2013 cash in the amount of ISK 545 million (USD 4.5 million) (at year end 2012: ISK 578 million) was classified as restricted. The cash is dedicated to pay interest and loan payments on none ISK denominated loans in accordance with a collateral agreement concluded in March 2010 with the Company's lenders.

9. Agreement with banks

The Company has a temporary waiver with the European Investment Bank for the year 2013. All covenants were fulfilled by the Company at the end of September 2013.

10. Fair value of financial instruments

Fair value versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	30.9.2013		31.12.2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing loans and borrowings	(15.768.369)	(15.509.571)	(18.388.553)	(18.138.840)

For other financial instruments their carrying amount equals their fair value.

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date in the case of ISK denominated debt, embedded derivatives and bonds. For foreign denominated debt the discount rates are based on interbank rates. All discount rates include an adequate credit spread, and were as follows.

Interest rates used for determining fair value:

	30.9.2013	31.12.2012
Embedded derivatives in power purchase agreements (USD)	1.74- 4.76%	1.90- 3.94%
Bonds	5.0%	5.0%
Interest bearing long term liabilities	Libor + 250 bp	Libor + 250 bp

Currency and interest rate swaps are discounted at swap rates for foreign currency denominated legs and the Housing Finance Fund curve for ISK CPI indexed legs.

Fair value hierarchy:

The table below analyses financial instruments carried at fair value, sorted by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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Notes, continued

10. Fair value of financial instruments, continued

	Level 1	Level 2	Level 3	Total
30 September 2013				
Embedded derivatives		38.256	1.179.135	1.217.391
Bonds		387.611		387.611
Currency and interest rate swap contracts		(441.314)		(441.314)
Investments in other companies			27.075	27.075
Short term investments	352.107			352.107
Total	352.107	(15.447)	1.206.210	1.542.870
31 December 2012				
Embedded derivatives		227.412	4.033.259	4.260.671
Bonds		441.768		441.768
Currency and interest rate swap contracts		(788.365)		(788.365)
Investments in other companies			27.075	27.075
Short term investments	565.800			565.800
Total	565.800	(119.185)	4.060.334	4.506.949

Embedded derivatives that expire in the year 2026 are classified in level 3 due to the fact that the forward market for aluminium only extends to maximum of ten years.

11. Dispute over swap agreement

A foreign currency swap agreement entered into between Glitnir Bank hf. and HS Orka hf. on 19 November 2006 is in dispute. HS Orka claims the agreement was annulled in November 2008 when Glitnir stated in a communication to HS Orka that they did not intend to fulfill their part of the contract. Glitnir now claims the contract is still valid and demands payments from HS Orka. The parties have had discussions to seek a compromise and explore whether there is a possibility for negotiations to settle the agreement. Glitnir has made an offer to HS Orka where they claim an amount identical to the amount HS Orka has calculated, based on the original contract. However, they further claim a penalty interest assessment for the whole amount. The penalty interest is considered unacceptable by HS Orka in light of the facts, and if further negotiations will not lead to a result acceptable to HS Orka, it will be up to the courts to decide on the matter. HS Orka will claim principally that the agreement was terminated in November 2008 and therefore HS Orka has no obligations thereunder, but at the same time and alternatively, that net present calculations of obligations pursuant to the agreement should be substantially lower than those claimed by Glitnir. On 20 February 2013 Glitnir attempted to terminate the swap agreement, as stipulated in a letter issued by the Winding up Board of Glitnir. In HS Orka´s managements opinion the attempted termination is based on weak legal grounds and that it is unlikely that Glitnir's claim in that respect will be upheld.

12. Other matters

Litigations and claims

HS Orka hf received positive arbitration results regarding a dispute over the quantity of power purchased since October 2011 by Norðurál Grundartangi, one of the primary purchasers of HS Orka's geothermal power. The award requires Norðurál Grundartangi to pay cash damages of just over $1.5 million to HS Orka representing 100% of the value of the power that the Grundartangi smelter did not take but was contractually obligated to purchase (such amounts were previously recognized by HS Orka as revenue). The award also upheld HS Orka's position regarding Norðurál Grundartangi's required power purchase amounts going forward.

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