

HS Orka hf.

Condensed Consolidated
Interim Financial Statements
for the nine months ended
30 September 2016
ISK 000's

HS Orka hf.
Brekkestígur 36
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Endorsement by the Board of Directors and the CEO

The condensed consolidated financial statements of HS Orka hf. (the "Company" or "HS Orka") for the period from 1 January to 30 September 2016 are prepared in accordance with the International Accounting Standard, IAS 34, Interim Financial Reporting.

According to the condensed consolidated interim statement of comprehensive income, the Company's operating revenue amounted to ISK 5,119 million for the period 1 January to 30 September 2016 (2015: ISK 5,382 million) and the profit for the period amounted to ISK 2,714 million (2015: ISK 290 million). Total comprehensive income amounted to ISK 2,501 million (2015: ISK 172 million). According to the condensed consolidated interim statements of financial position, the Company's assets amounted to ISK 47,260 million at the end of September 2016 (at year end 2015: ISK 49,296 million). Equity amounted to ISK 31,048 million at the end of September 2016 (at year end 2015: ISK 28,901 million) or 65.7% of total capital (at year end 2015: 58.6%).

To the best knowledge of the Board of Directors and the CEO, the Company's condensed consolidated financial statements are in accordance with International Accounting Standard, IAS 34, Interim Financial Reporting as adopted by the EU and it is the opinion of the Board of Directors and the CEO that the condensed consolidated financial statements give a true and fair view of the Company's assets, liabilities and financial position as at 30 September 2016, its financial performance, and the changes in cash flows during the period from 1 January to 30 September 2016 when read in conjunction with the financial statements for the year ended December 31, 2015.

Furthermore, it is the opinion of the Board of Directors and the CEO that the condensed consolidated financial statements and endorsement by the Board of Directors and the CEO 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 CEO of HS Orka hf. have today approved the Company's condensed consolidated interim financial statements for the nine months ended 30 September 2016 and confirmed by means of their signatures.

Reykjanesbær, 8 November 2016

The Board of Directors

Ross Beaty
Chairman of the board

Gylfi Árnason

John Carson

Anna Skúladóttir

Lynda Freeman

Chief Executive Officer

Ásgeir Margeirsson

Independent Auditor's Review Report

To the Board of Directors and Shareholders of HS Orka hf.

We have reviewed the accompanying condensed consolidated interim statement of financial position of HS Orka hf. as at 30 September 2016 and the related condensed consolidated interim statement of comprehensive income, changes in equity and cash flows for the nine-month period then ended, and notes to the condensed consolidated interim financial information. Management is responsible for the preparation and fair presentation of this condensed consolidated 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 consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting.

Reykjavik, 8 November 2016.

KPMG ehf.

Margret G. Flóvenz

Condensed Consolidated Statements of Comprehensive Income for the nine months ended 30 September 2016

	Notes	2016 Q3	2015 Q3	2016 YTD	2015 YTD
Operating revenue		1.611.351	1.562.521	5.118.674	5.381.957
Production cost and cost of sales		(1.414.316)	(1.200.123)	(4.155.199)	(3.901.867)
Gross profit		<u>197.035</u>	<u>362.397</u>	<u>963.475</u>	<u>1.480.091</u>
Other income	6	2.561	0	81.192	6.262
Other operating expenses	7	(117.172)	(117.116)	(502.004)	(409.360)
Research and development		(98.466)	(11.433)	(198.004)	(31.974)
Profit from operations		<u>(16.041)</u>	<u>233.849</u>	<u>344.659</u>	<u>1.045.018</u>
Finance income		22.202	52.767	80.513	176.731
Finance costs		(20.657)	(71.817)	(195.572)	(243.535)
Net exchange rate differences		447.140	488.264	596.687	206.484
Changes in fair value of embedded derivatives		812.421	(917.424)	1.653.050	(2.156.460)
Net finance income (expense)	8	<u>1.261.106</u>	<u>(448.210)</u>	<u>2.134.678</u>	<u>(2.016.780)</u>
Share of profit of associates		440.058	319.752	730.325	1.067.319
Profit before income tax		<u>1.685.123</u>	<u>105.390</u>	<u>3.209.662</u>	<u>95.557</u>
Income tax (expense) recovery		(249.011)	42.872	(495.869)	194.352
Net profit for the period		<u><u>1.436.112</u></u>	<u><u>148.262</u></u>	<u><u>2.713.793</u></u>	<u><u>289.909</u></u>
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Remeasurement of defined benefit liability		(9.884)	(7.141)	(53.101)	(39.918)
Tax on items not reclassified to profit or loss		1.977	1.428	10.620	7.984
		<u>(7.907)</u>	<u>(5.713)</u>	<u>(42.481)</u>	<u>(31.934)</u>
Items that may be reclassified subsequently to profit or loss					
Currency translation difference on associates		(120.107)	(44.985)	(169.961)	(85.559)
Other comprehensive loss for the period		<u>(128.014)</u>	<u>(50.698)</u>	<u>(212.442)</u>	<u>(117.493)</u>
Total comprehensive income		<u><u>1.308.098</u></u>	<u><u>97.564</u></u>	<u><u>2.501.351</u></u>	<u><u>172.416</u></u>
Profit attributable to:					
Owners of the Parent Company		1.436.112	148.262	2.713.793	289.909
Comprehensive income attributable to:					
Owners of the Parent Company		1.308.098	97.564	2.501.351	172.416
Earnings per share:					
Basic and diluted earnings per share		0,18	0,02	0,35	0,04

Notes on pages 9-14 are an integral part of these financial statements

Condensed Consolidated Statements of Financial Position as at 30 September 2016

Assets	Notes	30.09.2016	31.12.2015
Fixed assets			
Operating assets		36.268.022	36.566.711
Operating assets under construction		3.378.774	3.151.270
Intangible assets		1.639.985	1.470.899
Investments in associates		2.017.015	1.874.168
Investments in other companies		27.075	27.075
Bonds	12	56.354	193.886
Prepaid lease and royalty fee		515.408	507.236
Long-term receivables		603.996	504.019
		44.506.629	44.295.265
Current assets			
Inventories		493.721	483.368
Bonds	12	155.217	77.554
Trade and other receivables		1.098.969	1.367.118
Short-term investments		3.757	907.174
Restricted cash and cash equivalents	9	514.980	1.324.298
Cash and cash equivalents		487.109	841.072
		2.753.753	5.000.584
Total assets		47.260.382	49.295.848
Equity and liabilities			
Equity			
Share capital		7.841.124	7.841.124
Share premium and statutory reserve		7.038.855	7.038.855
Translation reserve		6.079	176.041
Revaluation reserve		8.230.942	8.601.406
Other reserves		730.325	0
Retained earnings		7.086.710	5.135.258
Total equity attributable to owners of the parent company		30.934.035	28.792.684
Non-controlling interest		113.518	108.617
Total equity		31.047.553	28.901.301
Liabilities			
Loans and borrowings		5.546.344	7.681.185
Pension obligations		2.140.514	2.052.400
Deferred tax liability		1.566.105	1.080.815
Embedded derivatives in power sales contracts		2.608.308	4.058.803
		11.861.271	14.873.203
Current liabilities			
Loans and borrowings		2.129.454	2.264.472
EU grant payable to participants		0	741.143
Trade and other payables		1.802.363	1.893.434
Embedded derivatives in power sales contracts		419.741	622.296
		4.351.558	5.521.344
Total liabilities		16.212.829	20.394.547
Total liabilities and equity		47.260.382	49.295.848

Notes on pages 9-14 are an integral part of these financial statements

Condensed Consolidated Statements of Changes in Equity for the nine months ended 30 September 2016

	Share Capital	Share Premium	Translation Reserve	Revaluation Reserve	Other Reserves*	Retained Earnings	Attributable to Parent	Non- controlling Interest	Total Equity
Equity at 1 January 2015	7.841.124	7.038.855	271.942	5.852.098	0	5.475.923	26.479.942	0	26.479.942
Profit for the period						289.909	289.909		289.909
Other comprehensive loss			(85.559)			(31.934)	(117.493)		(117.493)
Total comprehensive income			(85.559)	0	0	257.975	172.415	0	26.652.358
Revaluation reserve transferred to Retained earnings .				(218.019)		218.019	0		0
Dividends paid ISK 0.04 per share						(320.000)	(320.000)		(320.000)
Equity at 30 September 2015	<u>7.841.124</u>	<u>7.038.855</u>	<u>186.383</u>	<u>5.634.079</u>	<u>0</u>	<u>5.631.917</u>	<u>26.332.357</u>	<u>0</u>	<u>26.332.357</u>
Equity at 1 January 2016	7.841.124	7.038.855	176.041	8.601.406	0	5.135.258	28.792.684	108.617	28.901.301
Profit for the period					730.325	1.983.468	2.713.793		2.713.793
Other comprehensive loss			(169.961)			(42.481)	(212.442)		(212.442)
Total comprehensive (loss), income			(169.961)	0	730.325	1.940.987	2.501.351	0	2.501.351
Share capital increase in subsidiary								4.901	4.901
Revaluation reserve transferred to Retained earnings .				(370.464)		370.464	0		0
Dividends declared ISK 0.05 per share						(360.000)	(360.000)		(360.000)
Equity at 30 September 2016	<u>7.841.124</u>	<u>7.038.855</u>	<u>6.079</u>	<u>8.230.942</u>	<u>730.325</u>	<u>7.086.710</u>	<u>30.934.035</u>	<u>113.518</u>	<u>31.047.553</u>

*Other reserves include recognized share in profit and loss of subsidiaries and associates which is in excess of received or declared dividend by the subsidiary or the associate in accordance with change made to the Icelandic Financial statements act in the year 2016. The effects of the change have not been fully evaluated as uncertainty prevails regarding the scope and transition of the change.

Notes on pages 9-14 are an integral part of these financial statements

Condensed Consolidated Statements of Cash Flows for the nine months ended 30 September 2016

	Notes	1.1-30.9.2016	1.1-30.9.2015
Cash flows from operating activities			
Profit for the period		2.713.793	289.909
(Gain), loss on sale of operating assets		(81.181)	5.429
Increase in pension obligations		35.013	31.582
Depreciation and amortization		1.270.254	1.055.104
Net finance (income), expense		(2.134.678)	2.016.780
Share of profit of associates		(730.325)	(1.067.319)
Income tax expense (recovery)		495.869	(194.352)
Cash generated by operations		1.568.745	2.137.133
Inventories, (increase)		(10.353)	(57.485)
Receivables, decrease		197.243	241.857
Current liabilities, decrease		(420.156)	(363.424)
Net cash from operations before interest and taxes		1.335.479	1.958.081
Interest income		11.156	89.329
Interest expenses		(150.793)	(219.035)
Net cash provided by operating activities		1.195.842	1.828.375
Cash flows from investing activities			
Acquisition of operating assets		(1.455.278)	(1.423.343)
Proceeds from sale of operating assets		367.581	9.513
Proceeds from sale of intangible assets		925	0
Acquisition of intangible assets		(187.109)	(88.009)
Acquisition of shares in associates		(4.000)	(40.000)
Dividends received from associates		421.517	362.514
Investment in short-term investments		0	(1.608.870)
Proceeds from sale of short-term investments		922.407	1.153.042
Proceeds from repayment of bonds		0	82.549
		66.043	(1.552.604)
Cash flows from financing activities			
Paid dividends		0	(320.000)
Repayment of borrowings		(1.568.432)	(1.656.635)
Share capital increase in subsidiary		4.901	0
		(1.563.531)	(1.976.635)
Decrease in cash and cash equivalents		(301.646)	(1.700.864)
Cash and cash equivalents at 1 January		841.072	3.769.443
Effect of exchange rate fluctuations on cash held		(52.317)	16.174
Cash and cash equivalents at 30 September		487.109	2.084.753
Investing and financing activities not affecting cash flows			
Unpaid dividends		360.000	0
Current liabilities		360.000	0

Notes on pages 9-14 are an integral part of these financial statements

Notes to the Condensed Consolidated 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 as well as hot water for heating. 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 condensed consolidated interim financial statements of the Company consolidate the interim financial statements of its subsidiary Vesturverk ehf. and the Company's share of associates are accounted for on an equity basis of accounting.

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.

As at September 30, 2016 the Company holds a working capital deficit of ISK 1,598 million (ISK 521 million deficit at December 31, 2015). Though the Company projects that it will be able to meet its capital needs, it is currently in late stage negotiations with potential lenders for a loan to more fully accommodate working capital needs plus additional development and other elective expenditures.

2. Statement of compliance

This condensed interim financial report has been prepared in accordance with IAS 34 Interim Financial Reporting. 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 financial statements as at and for the year ended 31 December 2015. This condensed 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 2015.

These condensed interim financial statements were approved by the Board of Directors on 8 November 2016.

3. Significant accounting policies

Except as described below, the accounting policies applied by the Company in these condensed consolidated 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 2015.

These condensed consolidated 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, 31.12.2012 and 31.12.2015
- derivative financial instruments are measured at fair value
- embedded derivatives in 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 2016 that have been adopted by the EU (European Union). None of those effective from 1 January 2016 had effects on these financial statements.

The Company has changed the presentation of the consolidated interim statements of comprehensive income as research and development costs and net foreign exchange rate differences are now presented as a specific line item. Comparatives have been restated accordingly. Presentation of restricted cash and cash equivalents in the consolidated interim statements of financial position is now presented as a specific line item. Comparatives have been restated accordingly. Segment reporting have been changed as other operating expenses and research and development is now presented as unallocated items. Comparatives have been restated accordingly.

Notes to the Condensed Consolidated Financial Statements

4. Use of estimate 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 consolidated 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 2015.

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.

Electricity sale

Retail 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 2016	Power production	Electricity sale	Other	Total
External revenue	1.912.120	2.999.594	206.960	5.118.674
Inter-segment revenue	1.080.611			1.080.611
Total segment revenue	2.992.731	2.999.594	206.960	6.199.285
Segment operating results	278.159	605.948	79.369	963.475

Unallocated items

Other income				81.192
Research and development				(198.004)
Other operating expenses				(502.004)
Net finance income				2.134.678
Share of profit of associates				730.325
Income tax expense				(495.869)
Net profit for the period				2.713.793
Segment assets	39.907.710	898	14.985	39.923.593
Unallocated assets				7.336.789
Total assets				47.260.382
Unallocated liabilities				16.212.829
Capital expenditures	1.486.109	0	0	1.486.109
Unallocated capital expenditures				85.416
Depreciation and amortization	1.226.432	945	25.856	1.253.233
Unallocated depreciation and amortization				17.021

Notes to the Condensed Consolidated Financial Statements

5. Segment reporting (continued)

1 January - 30 September 2015	Power production	Electricity sale	Other	Total
External revenue	2.301.391	2.842.535	238.031	5.381.957
Inter-segment revenue	1.106.580			1.106.580
Total segment revenue	3.407.971	2.842.535	238.031	6.488.537
Segment operating results	924.650	523.679	31.761	1.480.091

Unallocated items

Other income				6.262
Research and development				(31.974)
Other operating expenses				(409.360)
Net finance expense				(2.016.780)
Share of profit of associates				1.067.319
Income tax recovery				194.352
Net profit for the period				289.909

Segment assets	35.952.483	56.217	496.800	36.505.500
Unallocated assets				7.573.081
Total assets				44.078.581

Unallocated liabilities				17.746.224
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Capital expenditures	1.494.461	4.701	0	1.499.162
Unallocated capital expenditures				12.190
Depreciation and amortization	1.007.640	5.753	31.660	1.045.053
Unallocated depreciation and amortization				10.051

Major customers

Revenues from one customer of the Company's power production segment amounted to ISK 1,044 million (2015: ISK 1,323 million).

Revenues from HS Veitur hf. were as follows:

	Power production	Electricity sale	Other	Total
Revenues 1.1-30.9.2016	544.065	237.161	145.792	927.018
Revenues 1.1-30.9.2015	588.844	204.189	182.038	975.071

6. Other income

HS Orka sold its office building to HS Veitur hf. in June resulting in sales profit of ISK 77 million. HS Orka will move its head offices to Svartsengi in Q4 2016.

Notes to the Condensed Consolidated Financial Statements

7. Other operating expenses

	Q3 2016	Q3 2015	YTD 2016	YTD 2015
Salaries and related expenses	56.886	46.593	173.563	137.733
Increase (decrease) in pension fund obligation	4.582	(12.388)	15.379	(1.408)
Administrative expenses	54.244	77.731	297.013	257.805
Depreciation and amortization	1.460	5.180	16.049	15.230
	<u>117.172</u>	<u>117.116</u>	<u>502.004</u>	<u>409.360</u>

Increase in administrative expenses in 2016 is mostly due to arbitration costs.

8. Finance income and expense

Finance income and expenses are specified as follows:

Finance income:

	Q3 2016	Q3 2015	YTD 2016	YTD 2015
Interest income on cash, loans and receivables	16.883	44.967	58.856	141.480
Fair value changes through profit or loss	5.320	7.800	21.658	35.251
	<u>22.202</u>	<u>52.767</u>	<u>80.513</u>	<u>176.731</u>

Finance cost

Interest expense	(19.637)	(57.886)	(119.879)	(204.239)
Indexation	(1.020)	(13.932)	(13.156)	(39.296)
Fair value changes through profit or loss	(0)	0	(62.537)	0
	<u>(20.657)</u>	<u>(71.818)</u>	<u>(195.572)</u>	<u>(243.535)</u>
Net exchange rate differences	447.140	488.264	596.687	206.484
Changes in fair value of embedded derivatives	812.421	(917.424)	1.653.050	(2.156.460)
	<u>1.261.106</u>	<u>(448.211)</u>	<u>2.134.678</u>	<u>(2.016.780)</u>

9. Restricted cash

At the end of September 2016 cash in the amount of ISK 515 million (USD 4.5 million) (at year end 2015: ISK 583 million (USD 4.5 million)) was classified as restricted. The cash is dedicated to secure loan payments in accordance with a collateral agreement concluded in March 2010 with the Company's lenders. EU grant payable to grant partners of ISK 741 million outstanding at year end 2015 was paid out in January 2016.

10. 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:

	30.09.2016		31.12.2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing long-term debts	7.675.798	7.469.863	9.945.657	9.593.082

Interest rates used for determining fair value for disclosure purposes

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

For foreign denominated debt the discount rates are based on interbank rates. All discount rates include an adequate credit spread, and were as follows:

Notes to the Condensed Consolidated Financial Statements

10. Financial instruments (continued)

Interest rates used for determining fair value:

	30.09.2016	31.12.2015
Interest-bearing long-term debts	Libor + 300 bp	Libor + 300 bp

Fair value of other financial assets and liabilities is equal to their carrying amount.

Classification of financial instruments

Financial assets and liabilities are classified as follows:

Financial assets	30.09.2016	31.12.2015
Loans and receivables	3.220.462	4.543.743
Financial assets designated at fair value through profit or loss	242.403	1.205.690
	<u>3.462.865</u>	<u>5.749.433</u>
Financial liabilities	30.09.2016	31.12.2015
Financial liabilities designated at fair value through profit or loss	3.028.049	4.681.099
Financial liabilities measured at amortized cost	9.478.161	12.580.233
	<u>12.506.210</u>	<u>17.261.332</u>

11. Fair value hierarchy

The table below analyses assets and liabilities 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 (ie. as prices) or indirectly (ie. derived from prices)

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

	Level 1	Level 2	Level 3	Total
30 September 2016				
Operating assets			36.268.022	36.268.022
Embedded derivatives		(3.028.049)		(3.028.049)
Bonds		211.571		211.571
Investments in other companies			27.075	27.075
Short-term investments	3.757			3.757
Total	<u>3.757</u>	<u>(2.816.478)</u>	<u>36.295.097</u>	<u>33.482.376</u>
31 December 2015				
Operating assets			36.566.711	36.566.711
Embedded derivatives		(234.088)	(4.447.010)	(4.681.099)
Bonds		271.440		271.440
Investments in other companies			27.075	27.075
Short-term investments	907.174			907.174
Total	<u>907.174</u>	<u>37.352</u>	<u>32.146.776</u>	<u>33.091.302</u>

Embedded derivatives have all been transferred from level 3 to level 2 due to the fact that the forward market for aluminium only extends to maximum of ten years.

Notes to the Condensed Consolidated Financial Statements

12. Other matters

Litigation and claims

HS Orka has commenced an arbitration to determine the validity of the Power Purchase Agreement between HS Orka and Norðurál Helguvík ehf. (dated 23 April 2007). The proceeding commenced on 10 July 2014. The hearings took place in April 2016 and a decision is expected in November 2016.

In February 2016 HS Orka issued a legal letter to HS Veitur hf demanding full payment of the long-term receivable in relation to the shared pension liability. This was following receipt of a termination notice by HS Veitur of an agreement regarding payments of the pension liability, sent on 31 December 2015. The two companies had reached an agreement in 2011 on HS Veitur's share and HS Orka considers its claim on the basis of that agreement to be fully valid. Negotiations have not settled the matter and the parties have decided to resort to courts to resolve the matter.

Reykjanesbær bond

Since selling land to the Municipality of Reykjanesbær in 2009, HS Orka has held a bond issued by the Municipality. Recently, representatives of the municipality contacted HS Orka to discuss the financial status of Reykjanesbær Municipality and to seek composition with its creditors. The composition was not approved, but negotiations are still ongoing. If the municipality fails to reach a composition it is likely that it will be put under administration by the government. How that will affect the Reykjanesbær bond receivable is uncertain and as a result it is not possible to give a definitive fair value. HS Orka considers it prudent, as a precautionary measure, to write it down by 25% or ISK 71 million. In October the Municipality paid half of its instalment which was due in July 2016.

Power purchase agreement

HS Orka hf has signed a power purchase agreement with Thorsil ehf., which is planning to construct and operate a silicon metal plant in Helguvík, Iceland. Under the contract, HS Orka would supply up to 44 MW, a minority portion of the plant's power needs. The delivery of the power from HS Orka is subject to several conditions on behalf of both parties.

Reykjanes power plant

HS Orka commenced a fluid reinjection program at the Reykjanes geothermal field in 2013 to mitigate decreases in generation at the Reykjanes plant and to enhance future field stability. Current generation is just under 70 MW. Under the program, a portion of geothermal fluids extracted as part of power plant operations are re-injected into the field to maintain and/or increase subsurface pressure and optimize resulting electrical output at the power plant. HS Orka drilled two large-diameter reinjection wells in 2014 and commenced reinjection in March 2016 following completion of a pipeline connecting the plant to the reinjection wells. The volume of reinjection will increase over the course of 2016 and the impact of the program is expected to be realized over the next few years, beginning in late 2016 or in 2017.

HS Orka is currently examining further methods of field enhancement, including reach-out to nearby geothermal areas outside of the Reykjanes field and further production from existing Reykjanes wells in light of new information from the Drilling Project.

Suðurorka

Suðurorka, a company owned 50% by HS Orka and has in recent years been developing a 150 MW hydro project in Skaftá in Southern Iceland, called Búlandsvirkjun. Until now the project has been in the pending category of the framework masterplan in Iceland. Now, however the steering committee for the framework masterplan has delivered its proposal to Althingi, the Icelandic parliament suggesting that Búlandsvirkjun falls in the preservation category. HS Orka strongly disagrees with the proposal and intends to protest against it. The final decision on the renewal of the framework masterplan is in the hands of Althingi and HS Orka believes that there will be, more likely than not changes made to the proposal before its approval by Althingi. Since this proposal has not been approved HS Orka does not consider it appropriate to write off its investment in Suðurorka at this time. However, that could change should the current proposal be approved by Althingi. HS Orka's total investment in Suðurorka at 30 September 2016 was ISK 240 million.