

HS Orka hf.

Condensed Interim Financial Statements
for the six months ended 30 June 2015
ISK 000's

HS Orka hf.
Brekkuvegur 36
260 Reykjanesbær

Reg. no. 680475-0169

Contents

Endorsement by the Board of Directors and the CEO	3
Independent Auditor's Review Report	4
Statement of Comprehensive Income	5
Statement of Financial Position	6
Statement of Changes in Equity	7
Statement of Cash Flows	8
Notes to the Financial Statements	9

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 June 2015 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 3,826 million for the period 1 January - 30 June 2015 (2014: ISK 3,582 million) and the profit for the period amounted to ISK 142 million (2014: ISK 740 million profit). Total comprehensive income amounted to ISK 75 million (2014: ISK 715 million). According to the statement of financial position, the Company's assets amounted to ISK 44,648 million at the end of June 2015 (at year end 2014: ISK 44,383 million). Equity amounted to ISK 26,235 million at the end of June 2015 (at year end 2014: ISK 26,480 million) or 58.8% of total capital (at year end 2014: 59.7%).

To the best knowledge of the Board of Directors and the CEO, 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 CEO that the condensed interim financial statements give a true and fair view of the Company's assets, liabilities and financial position as at 30 June 2015, and its financial performance and changes in cash flows in the period from 1 January to 30 June 2015.

Furthermore, it is the opinion of the Board of Directors and the CEO that the condensed interim 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 interim financial statements for the six months ended 30 June 2015 and confirmed by means of their signatures.



Reykjanesbær, 11 August 2015.

The Board of Directors:


Ross Beaty
Chairman of the board


Gylfi Arnason


Anna Skúladóttir


John Carson

Lindsay Murray

Chief Executive Officer
Asgeir Margeirsson



Independent Auditor's 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 at 30 June 2015, the statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the interim financial information. The Board of Directors and CEO are 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

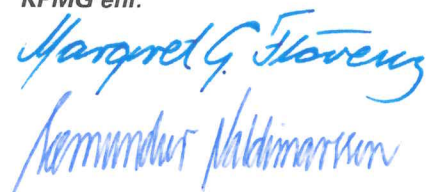
We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial 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, 11 August 2015

KPMG ehf.



Statement of Comprehensive Income for the six months ended 30 June 2015

	Note	2015 Q2	2014 Q2	2015 H1	2014 H1
Operating revenue	5	1.749.201	1.683.049	3.825.698	3.582.157
Production cost and cost of sales		(1.263.976)	(1.403.908)	(2.722.285)	(2.695.434)
Gross profit		485.225	279.141	1.103.413	886.723
Other operating expenses	6	(113.115)	(102.641)	(292.244)	(220.977)
Results from operating activities		372.110	176.500	811.169	665.746
Finance income		168.765	84.903	123.964	383.837
Finance costs		(83.957)	(104.728)	(453.497)	(201.008)
Changes in fair value of currency and interest rate swap		0	20.049	0	41.218
Changes in fair value of embedded derivatives		(635.292)	465.705	(1.239.036)	(242.063)
Net finance (expense) income	7	(550.484)	465.929	(1.568.569)	(18.016)
Share of profit of associates	9	605.322	136.064	747.567	222.269
Profit (loss) before income tax		426.948	778.493	(9.833)	869.999
Income tax recovery (expense)		35.675	(128.486)	151.480	(129.546)
Profit for the period		462.623	650.007	141.647	740.453
Other comprehensive loss					
Items that will never be reclassified to profit or loss					
Remeasurement of defined benefit liability		(21.808)	(19.827)	(32.777)	(12.825)
Tax on items that will never be reclassified to profit or loss		4.362	3.965	6.555	2.565
		(17.446)	(15.862)	(26.222)	(10.260)
Items that may be reclassified to profit or loss					
Foreign currency translation difference on associates		3.254	6.060	(40.574)	(14.919)
Other comprehensive loss, net of tax		(14.192)	(9.802)	(66.796)	(25.179)
Total comprehensive income for the period		448.431	640.205	74.851	715.274
Earnings per share					
Basic and diluted earnings per share		0,06	0,08	0,02	0,09

Notes on pages 9 to 13 are an integral part of these financial statements

Statement of Financial Position as at 30 June 2015

Assets	Note	30.6.2015	31.12.2014
Operating assets		31.475.701	31.115.291
Operating assets under construction		3.835.253	3.818.171
Intangible assets		1.155.990	1.119.873
Investments in associates		1.549.107	1.197.628
Investments in other companies		27.075	27.075
Bonds		264.158	253.457
Prepaid lease and royalty fee		505.878	497.428
Long-term receivable		440.543	395.544
Total non-current assets		39.253.705	38.424.467
Inventories		460.683	431.198
Bonds		82.549	79.205
Trade and other receivables		1.052.719	1.278.181
Short-term investments		161.680	400.540
Cash and cash equivalents	8	3.636.916	3.769.443
Total current assets		5.394.547	5.958.567
Total assets		44.648.252	44.383.034
Equity			
Share capital		7.841.124	7.841.124
Share premium		7.038.855	7.038.855
Translation reserve		231.368	271.942
Revaluation reserve		5.706.752	5.852.098
Retained earnings		5.416.695	5.475.923
Total equity		26.234.794	26.479.942
Liabilities			
Loans and borrowings		9.384.220	10.131.860
Pension obligations		1.954.400	1.894.500
Deferred tax liability		500.118	658.153
Embedded derivatives in power sales contracts		2.280.701	1.260.382
Total non-current liabilities		14.119.439	13.944.895
Loans and borrowings		2.329.191	2.263.830
Trade and other payables		1.573.347	1.521.603
Embedded derivatives in power sales contracts		391.481	172.764
Total current liabilities		4.294.019	3.958.197
Total liabilities		18.413.458	17.903.092
Total equity and liabilities		44.648.252	44.383.034

Notes on pages 9 to 13 are an integral part of these financial statements

Statement of Changes in Equity

for the six months ended 30 June 2015

	Share capital	Share premium	Translation reserve	Revaluation reserve	Retained earnings	Total
1 January - 30 June 2014						
Equity at 1 January 2014	7.841.124	7.038.855	285.937	6.142.790	4.712.178	26.020.884
Profit for the period					740.453	740.453
Other comprehensive loss			(14.919)		(10.260)	(25.179)
Total comprehensive (loss) income			(14.919)		730.193	715.274
Revaluation reserve transferred						
to retained earnings				(147.348)	147.348	0
Dividends declared ISK 0.03 per share					(220.000)	(220.000)
Equity at 30 June 2014	7.841.124	7.038.855	271.018	5.995.442	5.369.719	26.516.158
1 January - 30 June 2015						
Equity at 1 January 2015	7.841.124	7.038.855	271.942	5.852.098	5.475.923	26.479.942
Profit for the period					141.647	141.647
Other comprehensive loss			(40.574)		(26.222)	(66.796)
Total comprehensive (loss) income			(40.574)		115.425	74.851
Revaluation reserve transferred						
to retained earnings				(145.346)	145.346	0
Dividends declared ISK 0.04 per share					(320.000)	(320.000)
Equity at 30 June 2015	7.841.124	7.038.855	231.368	5.706.752	5.416.695	26.234.794

Notes on pages 9 to 13 are an integral part of these financial statements

Statement of Cash Flows

for the six months ended 30 June 2015

	2015 H1	2014 H1
Cash flows from operating activities		
Profit for the period	141.647	740.453
Adjustments:		
Loss (profit) on sale of operating assets	1.807	(1.637)
Increase in pension obligations	27.123	5.675
Depreciation and amortization	703.477	677.919
Net finance expense	1.568.569	18.016
Share of profit of associates	(747.567)	(222.269)
Income tax (recovery) expense	(151.480)	129.546
	1.543.576	1.347.703
Inventories, increase	(29.485)	(10.255)
Receivables, decrease	228.025	38.785
Current liabilities, (decrease) increase	(189.088)	129.706
Net cash from operations before interest and taxes	1.553.028	1.505.939
Interest income received	62.266	109.467
Interest and indexation costs paid	(156.953)	(190.642)
Net cash provided by operating activities	1.458.341	1.424.764
Cash flows from investing activities		
Acquisition of operating assets and assets under construction	(1.066.254)	(340.852)
Proceeds from sale of operating assets	2.713	5.610
Acquisition of intangible assets	(51.738)	(45.781)
Acquisition of shares in associates	(7.000)	(6.000)
Dividend received from associates	362.514	317.349
Investment in short-term investments	(908.870)	0
Proceeds from sale of short-term investments	1.153.042	0
Net cash used in investing activities	(515.593)	(69.674)
Cash flows from financing activities		
Paid dividends	(85.486)	(220.000)
Repayment of borrowings	(1.034.274)	(983.038)
Net cash used in financing activities	(1.119.760)	(1.203.038)
(Decrease) increase in cash and cash equivalents	(177.012)	152.052
Cash and cash equivalents at 1 January	3.769.443	4.413.403
Effect of exchange rate fluctuations on cash held	44.485	(2.902)
Cash and cash equivalents at 30 June	3.636.916	4.562.553
Investing and financing activities not affecting cash flows		
Unpaid dividends	234.514	0
Current liabilities	234.514	0

Notes on pages 9 to 13 are an integral part of these financial statements

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 six months ended 30 June 2015 comprise of 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*. 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 2014. 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 2014.

These condensed interim financial statements were approved by the Board of Directors on 11 August 2015.

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 2014.

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 power sales contracts are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value

a 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 2015 that have been adopted by the EU (European Union). None of those effective from 1 January 2015 had effects on these financial statements.

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 2014.

Notes, continued

4. 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.

	Power production	Electricity sale	Other	Total
1 January - 30 June 2015				
External revenue	1.615.848	2.034.263	175.587	3.825.698
Inter-segment revenue	943.257			943.257
Total segment revenue	2.559.105	2.034.263	175.587	4.768.955
Segment operating results	685.328	100.174	25.667	811.169
Unallocated items				
Net finance expenses			(1.568.569)	
Share of profit of associates			747.567	
Income tax recovery			151.480	
Profit for the period			141.647	
Segment assets	35.891.717	52.506	522.721	36.466.944
Unallocated assets				8.181.308
Total assets				44.648.252
Unallocated liabilities				18.413.458
Capital expenditures	1.114.091	3.901	0	1.117.992
Depreciation and amortization	678.525	3.803	21.149	703.477
1 January - 30 June 2014				
External revenue	1.389.645	1.715.304	477.208	3.582.157
Inter-segment revenue	808.158			808.158
Total segment revenue	2.197.803	1.715.304	477.208	4.390.315
Segment operating results	474.005	150.633	41.108	665.746
Unallocated items				
Net finance expenses			(18.016)	
Share of profit of associates			222.269	
Income tax expense			(129.546)	
Profit for the period			740.453	
Segment assets	35.431.342	45.695	541.730	36.018.767
Unallocated assets				8.368.103
Total assets				44.386.870
Unallocated liabilities				17.870.712
Capital expenditures	352.393	5.196	29.044	386.633
Depreciation and amortization	649.009	3.308	25.602	677.919

Notes, continued

5. Segment reporting, contd.:

Major customers

Revenues from one customer of the Company's power production segment represents approximately ISK 936 million of the Company's total revenues during the period (1.1.2014 - 30.6.2014: ISK 798 million).

Revenues from HS Veitur hf. amounted to ISK 703 million during the period (1.1.2014 - 30.6.2014: ISK 993 million) and relates to segments as follows:

	Power production	Electricity sale	Other	Total
Revenues 1.1. - 30.6.2015	428.500	150.190	124.326	703.016
Revenues 1.1. - 30.6.2014	393.158	154.795	444.561	992.514

6. Other operating expenses

Operating expenses specifies as follows:

	2015 Q2	2014 Q2	2015 H1	2014 H1
Salaries and related expenses	46.264	49.828	91.140	103.023
Changes in pension fund commitment	5.675	4.210	10.980	11.343
Administrative expenses	55.968	44.185	180.074	98.123
Depreciation and amortization	5.208	4.418	10.050	8.488
Total operating expenses	113.115	102.641	292.244	220.977

7. Net finance expenses

Net finance expenses specifies as follows:

	2015 Q2	2014 Q2	2015 H1	2014 H1
Interest income on cash, loans and receivables	46.076	72.775	96.513	139.553
Fair value changes on financial assets through profit and loss	16.428	12.128	27.451	23.514
Net foreign exchange gain	106.261	0	0	220.770
Total finance income	168.765	84.903	123.964	383.837
Interest expense	(63.769)	(87.892)	(146.353)	(178.757)
Indexation	(20.188)	(11.906)	(25.364)	(22.251)
Net foreign exchange loss	0	(4.930)	(281.780)	0
Total finance costs	(83.957)	(104.728)	(453.497)	(201.008)
Changes in fair value of swap contract	0	20.049	0	41.218
Changes in fair value of embedded derivatives	(635.292)	465.705	(1.239.036)	(242.063)
Net finance (expense) income	(550.484)	465.929	(1.568.569)	(18.016)

8. Restricted cash

At the end of June 2015 cash in the amount of ISK 592 million (USD 4.5 million) (at year end 2014: ISK 571 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.

9. Share of profit of associates

Blue Lagoon issued new share capital in the period which diluted the Company's investment interest. Before issuing the shares, HS Orka share of the Blue Lagoon was 33.03%, but is now 30.03%. Net effects of the increase in share capital and dilution recognized in profit and loss are ISK 447 million.

Notes, continued

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:

	30.6.2015		31.12.2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing loans and borrowings	11.713.411	11.288.735	12.395.690	12.103.473

Fair value of other financial instruments is equal to their carrying amount.

Interest rates used for determining fair value for disclosure purpose

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:

	30.6.2015	31.12.2014
Embedded derivatives in power purchase agreements (USD)	1.16%-3.28%	1.26%-4.84%
Bonds	5.0%	5.0%
Interest bearing long term liabilities	Libor + 300 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 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 (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).

	Level 1	Level 2	Level 3	Total
30 June 2015				
Operating assets			31.475.701	31.475.701
Embedded derivatives	(149.459)	(2.522.723)	(2.672.182)
Bonds		346.707		346.707
Investments in other companies			27.075	27.075
Short-term investments	161.680			161.680
Total	161.680	197.248	28.980.053	29.338.981
31 December 2014				
Operating assets			31.115.291	31.115.291
Embedded derivatives	(83.848)	(1.349.298)	(1.433.146)
Bonds		332.662		332.662
Investments in other companies			27.075	27.075
Short-term investments	400.540			400.540
Total	400.540	248.814	29.793.068	30.442.422

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.

Notes, continued

11. Other matters

Litigations 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 was commenced on 10 July 2014. Arbitrators have been appointed for the tribunal and hearings are expected to take place in April 2016.