

HS Orka hf.

Condensed Interim Financial Statement
for the three months ended 31 March 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 (Loss)	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 31 March 2015 are prepared in accordance with the International Accounting Standard, IAS 34, *Interim Financial Reporting*.

According to the statement of comprehensive income (loss), the Company's operating revenue amounted to ISK 2,076 million for the period 1 January - 31 March 2015 (2014: ISK 1,899 million) and the loss for the period amounted to ISK 321 million (2014: ISK 90 million profit). Total comprehensive loss amounted to ISK 374 million (2014: ISK 75 million comprehensive income). According to the statement of financial position, the Company's assets amounted to ISK 44,696 million at the end of March 2015 (at year end 2014: ISK 44,383 million). Equity amounted to ISK 25,786 million at the end of March 2015 (at year end 2014: ISK 26,480 million) or 57.7% 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 31 March 2015, and its financial performance and changes in cash flows in the period from 1 January to 31 March 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 three months ended 31 March 2015 and confirmed by means of their signatures.

Reykjanesbær, 12 May 2015.

The Board of Directors:



Ross Beaty
Chairman of the board



Gylfi Arnason



Anna Skúladóttir



Chief Executive Officer
Ásgeir Margeirsson



John Carson



Lynda Freeman

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 31 March 2015, the statements of comprehensive income, changes in equity and cash flows for the three-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, 12 May 2015

KPMG ehf.

Sæmundur Valdimarsson
Margret G. Flóvenz

Statement of Comprehensive Income (Loss) for the three months ended 31 March 2015

	Note	2015 Q1	2014 Q1
Operating revenue	5	2.076.497	1.899.108
Production cost and cost of sales		(1.458.309)	(1.291.526)
Gross profit		618.188	607.582
Other operating expenses	6	(179.129)	(118.336)
Results from operating activities		439.059	489.246
Finance income		61.460	303.864
Finance costs		(475.801)	(101.210)
Changes in fair value of currency and interest rate swap contracts		0	21.169
Changes in fair value of embedded derivatives		(603.744)	(707.768)
Net finance expense	7	(1.018.085)	(483.945)
Share of profit of associates		142.245	86.205
(Loss) profit before income tax		(436.781)	91.506
Income tax recovery (expense)		115.805	(1.060)
(Loss) profit for the period		(320.976)	90.446
Other comprehensive (loss) income			
Items that will never be reclassified to profit or loss			
Remeasurement of defined benefit liability		(10.969)	7.002
Tax on items that will never be reclassified to profit or loss		2.194	(1.400)
		(8.775)	5.602
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation difference on associates		(43.828)	(20.979)
Other comprehensive loss, net of tax		(52.603)	(15.377)
Total comprehensive (loss) income for the period		(373.579)	75.069
(Loss) Earnings per share			
Basic and diluted (loss) earnings per share		(0,04)	0,01

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

Statement of Financial Position

as at 31 March 2015

Assets	Note	31.3.2015	31.12.2014
Operating assets		31.677.913	31.115.291
Operating assets under construction		3.827.775	3.818.171
Intangible assets		1.126.914	1.119.873
Investments in associates		1.295.190	1.197.628
Investments in other companies		27.075	27.075
Bonds		257.228	253.457
Prepaid lease and royalty fee		498.700	497.428
Long-term receivable		410.232	395.544
Total non-current assets		39.121.027	38.424.467
Inventories		444.688	431.198
Bonds		80.397	79.205
Trade and other receivables		1.230.217	1.278.181
Short-term investments		1.108.410	400.540
Cash and cash equivalents	8	2.711.574	3.769.443
Total current assets		5.575.286	5.958.567
Total assets		44.696.313	44.383.034
Equity			
Share capital		7.841.124	7.841.124
Share premium		7.038.855	7.038.855
Translation reserve		228.114	271.942
Revaluation reserve		5.779.425	5.852.098
Retained earnings		4.898.845	5.475.923
Total equity		25.786.363	26.479.942
Liabilities			
Loans and borrowings		10.072.286	10.131.860
Pension obligations		1.911.000	1.894.500
Deferred tax liability		540.154	658.153
Embedded derivatives in power sales contracts		1.759.647	1.260.382
Total non-current liabilities		14.283.087	13.944.895
Loans and borrowings		2.335.351	2.263.830
Trade and other payables		2.014.270	1.521.603
Embedded derivatives in power sales contracts		277.242	172.764
Total current liabilities		4.626.863	3.958.197
Total liabilities		18.909.950	17.903.092
Total equity and liabilities		44.696.313	44.383.034

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

Statement of Changes in Equity for the three months ended 31 March 2015

	Share capital	Share premium	Translation reserve	Revaluation reserve	Retained earnings	Total
1 January - 31 March 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					90.446	90.446
Other comprehensive (loss) income			(20.979)		5.602	(15.377)
Total comprehensive (loss) income			(20.979)		96.048	75.069
Revaluation reserve transferred						
to retained earnings				(73.674)	73.674	0
Dividends declared ISK 0.03 per share					(220.000)	(220.000)
Equity at 31 March 2014	7.841.124	7.038.855	264.958	6.069.116	4.661.900	25.875.953
1 January - 31 March 2015						
Equity at 1 January 2015	7.841.124	7.038.855	271.942	5.852.098	5.475.923	26.479.942
Loss for the period					(320.976)	(320.976)
Other comprehensive loss			(43.828)		(8.775)	(52.603)
Total comprehensive loss			(43.828)		(329.751)	(373.579)
Revaluation reserve transferred						
to retained earnings				(72.673)	72.673	0
Dividends declared ISK 0.04 per share					(320.000)	(320.000)
Equity at 31 March 2015	7.841.124	7.038.855	228.114	5.779.425	4.898.845	25.786.363

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

Statement of Cash Flows

for the three months ended 31 March 2015

	2015	2014
	Q1	Q1
Cash flows from operating activities		
(Loss) profit for the period	(320.976)	90.446
Adjustments:		
Loss (profit) on sale of operating assets	34 (	564)
Increase (decrease) in pension obligations	5.531 (	16.499)
Depreciation and amortization	350.862	338.360
Net finance expense	1.018.085	483.945
Share of profit of associates	(142.245) (	86.205)
Income tax (recovery) expense	(115.805)	1.060
	795.486	810.543
Inventories, (increase) decrease	(13.490)	10.290
Receivables, decrease	50.000	70.415
Current liabilities, increase (decrease)	172.667 (	26.654)
Net cash from operations before interest and taxes	1.004.663	864.594
Interest income received	36.357	47.557
Interest and indexation costs paid	(82.719) (	97.034)
Net cash provided by operating activities	958.301	815.117
Cash flows from investing activities		
Acquisition of operating assets and assets under construction	(915.550) (	150.950)
Proceeds from sale of operating assets	100	4.200
Acquisition of intangible assets	(14.713) (	4.524)
Acquisition of shares in associates	(4.000)	0
Dividend received from associates	4.855	0
Investment in short-term investment	(908.870)	0
Proceeds from sale of short-term investments	201.000	0
Net cash used in investing activities	(1.637.178)	(151.274)
Cash flows from financing activities		
Repayment of borrowings	(469.559) (	453.110)
Net cash used in financing activities	(469.559)	(453.110)
(Decrease) increase in cash and cash equivalents	(1.148.436)	210.733
Cash and cash equivalents at 1 January	3.769.443	4.413.403
Effect of exchange rate fluctuations on cash held	90.567 (	2.073)
Cash and cash equivalents at 31 March	2.711.574	4.622.063
Investing and financing activities not affecting cash flows		
Unpaid dividends	(320.000) (	220.000)
Current liabilities	320.000	220.000

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 three months ended 31 March 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 12 May 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 - 31 March 2015				
External revenue	827.226	1.169.452	79.819	2.076.497
Inter-segment revenue	500.054			500.054
Total segment revenue	1.327.280	1.169.452	79.819	2.576.551
Segment operating results	364.255	61.606	13.198	439.059
Unallocated items				
Net finance expenses			(1.018.085)	
Share of profit of associates				142.245
Income tax recovery				115.805
Loss for the period			(320.976)	
Segment assets	36.058.372	55.035	519.195	36.632.602
Unallocated assets				8.063.711
Total assets				44.696.313
Unallocated liabilities				18.909.950
Capital expenditures	930.263	0	0	930.263
Depreciation and amortization	337.116	1.230	12.516	350.862
1 January - 31 March 2014				
External revenue	744.576	923.899	230.633	1.899.108
Inter-segment revenue	466.739			466.739
Total segment revenue	1.211.315	923.899	230.633	2.365.847
Segment operating results	398.242	70.918	20.086	489.246
Unallocated items				
Net finance expenses			(483.945)	
Share of profit of associates				86.205
Income tax expense			(1.060)	
Profit for the period				90.446
Segment assets	35.553.350	43.105	531.050	36.127.505
Unallocated assets				8.516.182
Total assets				44.643.687
Unallocated liabilities				18.767.734
Capital expenditures	149.300	897	5.277	155.474
Depreciation and amortization	324.245	1.599	12.516	338.360

Notes, continued

5. Segment reporting, contd.:

Major customers

Revenues from one customer of the Company's power production segment represents approximately ISK 479 million of the Company's total revenues during the period (1.1.2014 - 31.3.2014: ISK 393 million).

Revenues from HS Veitur hf. amounted to ISK 375 million during the period (1.1.2014 - 31.3.2014: ISK 556 million) and relates to segments as follows:

	Power production	Electricity sale	Other	Total
Revenues 1.1. - 31.3.2015	226.489	86.311	62.348	375.148
Revenues 1.1. - 31.3.2014	238.031	85.634	232.809	556.474

6. Other operating expenses

Operating expenses specifies as follows:

	2015 Q1	2014 Q1
Salaries and related expenses	44.876	53.195
Changes in pension fund commitment	5.305	7.133
Administrative expenses	124.106	53.938
Depreciation and amortization	4.842	4.070
Total operating expenses	179.129	118.336

7. Net finance expenses

Net finance expenses specifies as follows:

	2015 Q1	2014 Q1
Interest income on cash, loans and receivables	50.437	66.778
Fair value changes on financial assets through profit or loss	11.023	11.386
Net foreign exchange gain	0	225.700
Total finance income	61.460	303.864
Interest expense	(82.584)	(90.865)
Indexation	(5.176)	(10.345)
Net foreign exchange loss	(388.041)	0
Total finance costs	(475.801)	(101.210)
Changes in fair value of currency and interest rate swap contract	0	21.169
Changes in fair value of embedded derivatives	(603.744)	(707.768)
Net finance expense	(1.018.085)	(483.945)

8. Restricted cash

At the end of March 2015 cash in the amount of ISK 617 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.

Notes, continued

9. 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:

	31.3.2015		31.12.2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing loans and borrowings	12.407.637	12.042.671	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:

	31.3.2015	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 + 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 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
31 March 2015				
Operating assets			31.677.913	31.677.913
Embedded derivatives .....	(	115.510)	(1.921.380)	(2.036.890)
Bonds		337.625		337.625
Investments in other companies			27.075	27.075
Short-term investments	1.108.410			1.108.410
Total	1.108.410	222.115	29.783.608	31.114.133

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.