HS Orka hf.

Condensed Interim Financial Statements
Six months ended 30 June 2013
ISK

HS Orka hf.
Brekkustígur 36
260 Reykjanesbær

Reg. no. 680475-0169

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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 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 3,590 million for the first six months of 2013 (2012: ISK 3,466 million) and the loss for the period amounted to ISK 1,415 million (2012: ISK 660 million). Other comprehensive loss amounted to ISK 65 million (2012: ISK 40 million). According to the statement of financial position, the Company's assets amounted to ISK 45,478 million at the end of June 2013 (at year end 2012: ISK 49,826 million). Equity amounted to ISK 24,974 million at the end of June 2013 (at year end 2012: ISK 26,605 million) or 54.9% 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 June 2013, its financial performance, and the changes in cash flows in the period from 1 January to 30 June 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 June 2013 and confirmed by means of their signatures.

Reykjanesbær, 12 August 2013.

The Board of Directors:

Ásgeir Margeirsson
Chairman of the board

Gylfi Árnason

John Carson

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 June 2013 and the related statements of comprehensive income, changes in equity and cash flows for the six-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 August 2013

KPMG ehf.

Sæmundur Valdimarsson
Margret G. Flóvenz

Statement of Comprehensive Income
for the six months ended 30 June 2013

	Note	2013 Q2	2012 Q2	2013 H1	2012 H1
Operating revenue	5	1.642.827	1.624.361	3.590.097	3.465.830
Production cost and cost of sales		(1.393.715)	(1.117.369)	(2.711.825)	(2.310.216)
Gross profit		249.112	506.992	878.272	1.155.614
Other operating expenses	6	(62.449)	(100.301)	(235.951)	(211.423)
Results from operating activities		186.663	406.691	642.321	944.191
Finance income		291.745	663.906	1.314.176	141.833
Finance costs		(113.051)	(171.336)	(275.108)	(514.320)
Changes in fair value of swap contracts		81.275	158.011	334.728	63.807
Changes in fair value of embedded derivatives		(1.194.429)	(1.989.779)	(3.950.368)	(1.527.918)
Net finance expenses	7	(934.460)	(1.339.198)	(2.576.572)	(1.836.598)
Share of profit of associates		93.636	93.932	132.411	53.470
Loss before income tax		(654.161)	(838.575)	(1.801.840)	(838.937)
Income tax recovery		149.554	186.501	386.850	178.481
Loss for the period		(504.607)	(652.074)	(1.414.990)	(660.456)
Other comprehensive income					
Items that will never be reclassified to profit or loss					
Remeasurement of defined benefit liability		(33.491)	(50.734)	(33.491)	(50.734)
Tax on items that will never be reclassified to profit or loss		6.698	10.147	6.698	10.147
		(26.793)	(40.587)	(26.793)	(40.587)
Items that may be reclassified subsequently to profit or loss					0
For currency transl difference of associates		(6.665)	(24.579)	(38.480)	649
Other comprehensive loss, net of income tax		(33.458)	(65.166)	(65.273)	(39.938)
Total comprehensive loss for the period		(538.065)	(717.240)	(1.480.263)	(700.394)
Earnings per share					
Basic and diluted loss per share		(0,06)	(0,08)	(0,18)	(0,09)

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

Condensed Interim Financial Statements 30 June 2013 of HS Orka hf. 5 All amounts are in thousands of ISK

Statement of Financial Position
as at 30 June 2013

Assets	Note	30.6.2013	31.12.2012
Operating assets		31.480.001	31.494.192
Operating assets under construction		3.767.479	3.664.287
Intangible assets		993.141	990.063
Investments in associates		627.769	740.937
Investments in other companies		27.075	27.075
Bonds		381.877	363.028
Embedded derivatives in power sales contracts		464.291	4.071.213
Prepaid lease and royalty fee		486.114	475.166
Long term receivable		335.381	289.646
Total non-current assets		38.563.128	42.115.607
Inventories		395.909	414.088
Bonds		81.273	78.740
Trade and other receivables		1.111.876	1.234.576
Embedded derivatives in power sales contracts		0	189.458
Short term investments		579.929	565.800
Cash and cash equivalents	8	4.745.396	5.227.728
Total current assets		6.914.383	7.710.390
Total assets		45.477.511	49.825.997
Equity			
Share capital		7.841.124	7.841.124
Share premium		7.038.855	7.038.855
Translation reserve		295.985	334.465
Revaluation reserve		6.292.940	6.443.110
Retained earnings		3.505.535	4.947.149
Total equity		24.974.439	26.604.703
Liabilities			
Loans and borrowings		14.013.277	16.007.219
Pension obligations		1.800.000	1.726.700
Deferred tax liability		432.433	825.978
Currency and interest rate swap contracts		397.204	677.508
Total non-current liabilities		16.642.914	19.237.405
Loans and borrowings		2.271.151	2.381.334
Trade and other payables		1.028.979	1.142.086
Embedded derivatives in power sales contracts		153.988	0
Currency and interest rate swap contracts		406.040	460.469
Total current liabilities		3.860.158	3.983.889
Total liabilities		20.503.072	23.221.294
Total equity and liabilities		45.477.511	49.825.997

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

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Statement of Changes in Equity
for the six months ended 30 June 2013

	Share capital	Share premium	Translation reserve	Revaluation reserve	Retained earnings	Total
H1 2012						
Equity at 1 January 2012	6.962.919	3.218.660	297.542	1.647.187	4.270.960	16.397.268
Loss for the period					(660.456)	(660.456)
Other comprehensive loss			649		(40.587)	(39.938)
Total comprehensive loss			649		(701.043)	(700.394)
Revaluation reserve transferred to retained earnings				(38.136)	38.136	0
Share capital increase	878.205	3.820.196				4.698.401
Equity at 30 June 2012	7.841.124	7.038.856	298.191	1.609.051	3.608.053	20.395.275
H1 2013						
Equity at 1 January 2013	7.841.124	7.038.855	334.465	6.443.110	4.947.149	26.604.703
Loss for the period					(1.414.990)	(1.414.990)
Other comprehensive loss			(38.480)		(26.793)	(65.273)
Total comprehensive loss			(38.480)		(1.441.783)	(1.480.263)
Revaluation reserve transferred to retained earnings				(150.170)	150.170	0
Dividends declared ISK 0.02 per share ..					(150.000)	(150.000)
Equity at 30 June 2013	7.841.124	7.038.855	295.985	6.292.940	3.505.535	24.974.439

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

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Statement of Cash Flows
for the six months ended 30 June 2013

	2013 H1	2012 H1
Cash flows from operating activities		
Loss for the period	(1.414.990)	(660.456)
Adjustments:		
Loss on sale of operating assets	16	(4.553)
Increase in pension obligations	39.809	84.213
Depreciation and amortization	652.091	497.906
Net finance expenses	2.576.572	1.836.598
Share of profit of associates	(132.411)	(53.470)
Income tax	(386.850)	(188.628)
	1.334.237	1.511.610
Inventories, decrease (increase)	18.179	(9.644)
Receivables, decrease	99.065	161.033
Current liabilities, decrease	(65.082)	(213.727)
Net cash from operations before interest and taxes	1.386.399	1.449.272
Interest income received	98.942	48.575
Interest and indexation costs paid	(240.325)	(205.797)
Net cash from operating activities	1.245.016	1.292.050
Cash flows from investing activities		
Acquisition of operating assets during the year	(734.676)	(171.759)
Payments for operating assets acquired in prior year	0	(174.394)
Proceeds from sale of operating assets	950	5.517
Acquisition of intangible assets	(10.460)	(14.131)
Acquisition of shares in associates	(10.000)	(10.593)
Dividend received from associates	217.100	4.855
Investment in marketable securities	0	(550.000)
Net cash used in investing activities	(537.086)	(910.505)
Cash flows from financing activities		
Share capital increase	0	4.698.401
Repayment of borrowings	(1.002.960)	(863.590)
Paid dividends	(150.000)	0
Net cash (used in) provided by financing activities	(1.152.960)	3.834.811
(Decrease) Increase in cash and cash equivalents	(445.030)	4.216.356
Cash and cash equivalents at 1 January	5.227.728	1.304.713
Effect of exchange rate fluctuations on cash held	(37.302)	32.189
Cash and cash equivalents at 30 June	4.745.396	5.553.258
Investing and financing activities not affecting cash flows		
Dividend from associate	0	156.950
Current receivables	0	(156.950)

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 six months ended 30 June 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 August 12 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 August 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

***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 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 H1 2012 decreased by ISK 14 million (Q2: ISK 14 million), other operating expenses decreased by ISK 37 million in H1 2012 (Q2: ISK 37 million) and income tax recovery decreased by ISK 10 million in H1 2012 (Q2: expense decreased by ISK 10 million). As a result other comprehensive loss increased by ISK 41 million in H1 2012 (Q2: other comprehensive loss increased by ISK 41 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 June 2013	Power production	Electricity sale	Other	Total
External revenue	1.537.286	1.542.578	510.233	3.590.097
Inter-segment revenue	779.500			779.500
Total segment revenue	2.316.786	1.542.578	510.233	4.369.597
Segment operating results	481.839	125.969	34.514	642.321
Unallocated items				
Net finance expenses				(2.576.572)
Share of profit of associates				132.411
Income tax recovery				386.850
Loss for the period				(1.414.990)
Segment assets	35.647.977	46.079	546.565	36.240.621
Unallocated assets				9.236.890
Total assets				45.477.511
Unallocated liabilities				20.503.072
Capital expenditures	738.258	999	5.879	745.136
Depreciation and amortization	632.546	2.902	16.643	652.091

1 January - 30 June 2012	Power production	Electricity sale	Other	Total
External revenue	1.589.936	1.345.325	530.569	3.465.830
Inter-segment revenue	753.260			753.260
Total segment revenue	2.343.196	1.345.325	530.569	4.219.090
Segment operating results	791.243	130.940	22.008	944.191
Unallocated items				
Net finance expenses				(1.836.598)
Share of profit of associates				53.470
Income tax recovery				178.481
Loss for the period				(660.456)
Segment assets	29.400.946	50.132	566.455	30.017.533
Unallocated assets				13.028.940
Total assets				43.046.473
Unallocated liabilities				22.651.199
Capital expenditures	180.005	865	5.020	185.890
Depreciation and amortization	477.921	2.896	17.089	497.906

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5. Segment reporting, contd.:

Major customers

Revenues from one customer of the Company's Production segment represents approximately ISK 945 million of the Company's total revenues during the period (1.1.2012 - 30.6.2012: ISK 1,058 million).

Revenues from HS Veitur hf. represents ISK 986 million during the period (1.1.2012 - 30.6.2012: ISK 921 million) and relates to segments as follows:

	Power production	Electricity sale	Other	Total
Revenues 1.1. - 30.6.2013	405.609	137.453	443.419	986.481
Revenues 1.1. - 30.6.2012	362.640	118.881	439.720	921.241

6. Other operating expenses

Operating expenses specifies as follows:

	2013 Q2	2012 Q2	2013 H1	2012 H1
Salaries and related expenses	37.811	35.965	83.663	79.698
Change in pension fund commitment	(8.850)	16.129	12.045	13.795
Administrative expenses	29.796	44.372	133.042	110.573
Depreciation and amortization	3.692	3.835	7.201	7.357
Total operating expenses	62.449	100.301	235.951	211.423

7. Net finance expenses

Net finance expenses specifies as follows:

	2013 Q2	2012 Q2	2013 H1	2012 H1
Interest income on cash, loans and receivables	87.924	79.960	152.860	112.980
Net foreign exchange gain	189.530	570.210	1.125.805	0
Fair value changes on financial assets through profit or loss	14.290	13.736	35.511	28.853
Total finance income	291.744	663.906	1.314.176	141.833
Interest expense	(105.024)	(119.409)	(216.505)	(266.978)
Indexation	(8.027)	(51.927)	(58.603)	(99.316)
Net foreign exchange loss	0	0	0	(148.026)
Total finance costs	(113.051)	(171.336)	(275.108)	(514.320)
Fair value changes of currency and interest rate swap contracts	81.275	158.011	334.728	63.807
Fair value changes of embedded derivatives in electric power sale contracts	(1.194.429)	(1.989.779)	(3.950.368)	(1.527.918)
Net finance expenses	(934.461)	(1.339.198)	(2.576.572)	(1.836.598)

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8. Restricted cash

At the end of June 2013 cash in the amount of ISK 555 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 June 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:

	30.6.2013		31.12.2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing long-term debts	(16.284.428)	(15.923.255)	(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:

	30.6.2013	31.12.2012
Embedded derivatives in power purchase agreements (USD)	2.04- 4.77%	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 lags.

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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10. Fair value of financial instruments, continued

	Level 1	Level 2	Level 3	Total
30 June 2013				
Embedded derivatives		(15.118)	325.421	310.303
Bonds		463.150		463.150
Other derivatives		(452.850)		(452.850)
Investments in other companies			27.075	27.075
Short term investments	579.929			579.929
Total	579.929	(4.818)	352.496	927.607
31 December 2012				
Embedded derivatives		227.412	4.033.259	4.260.671
Bonds		441.768		441.768
Other derivatives		(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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