HS Orka hf.

Condensed Interim Financial Statement
six months ended 30 June 2011
ISK

HS Orka hf.
Brekkustígur 36
260 Reykjanesbær

Reg.no. 680475-0169

Contents

Endorsement by the Board of Directors and the Management

The condensed interim financial statements of HS Orka hf. for the period from 1 January to 30 June 2011 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 3,803 million in the first six months of the year 2011 (2010: ISK 3,544 million) and the profit of the period amounted to ISK 754 million (2010: ISK 2,396 million loss). Comprehensive income amounted to ISK 780 million (2010: ISK 2,464 million comprehensive loss). According to the statement of financial position, the Company's assets amounted to ISK 43,105 million at the end of June 2011 (at year end 2010: ISK 41,536 million). Equity amounted to ISK 18,076 million at the end of June 2011 (at year end 2010: ISK 17,296 million) or 41.9% of total capital (at year end 2010: 41.6%).

At the end of the period Magma Energy Sweden A.B. held 75% and Jarðvarmi slhf. held 25% of the shares in HS Orka hf.

According 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 interim financial statements give a true and fair view of the Company's assets, liabilities and financial position as at 30 June 2011 and its financial performance and changes in cash flows in the period from 1 January to 30 June 2011.

Furthermore, it is the opinion of the Board of Directors and the Management that the interim financial statements give a fair view of the Company's financial development, financial position and performance and describe the main risk factors and uncertainty faced by the Company.

The Board of Directors and the Management of HS Orka hf. have today discussed the Company's interim financial statements for the period from 1 January to 30 June 2011 and confirmed by means of their signatures.

Reykjanesbær, 26 August 2011.

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 Auditor's Report

To the Board of Directors of HS Orka hf.

We have audited the accompanying condensed financial statements of HS Orka, which comprise the statement of financial position as at June 30, 2011, the statements of comprehensive income, changes in equity and cash flows for the six month period then ended, and notes.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with IAS 34 “Interim Financial Reporting” and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the condensed financial statements are in all material respect in accordance with IAS 34 “Interim Financial Reporting”

Emphasis of matter
Without qualifying our opinion we draw attention to note 10 to the financial statements which describes the uncertainty related to calculation of certain covenants in loan agreements. If indexation is included in the calculation the company is in breach of these covenants. Should the loans be claimed for settlement and an agreement on their refinancing is not reached an uncertainty regarding the Company's ability to continue as a going concern would exist.

Reykjavík, 26 August 2011

KPMG ehf.

Sæmundur Valdimarsson
Margret G. Flóvenz

Statement of Comprehensive Income
for the six months ended 30 June 2011

	Notes	2011 Q2 *Reviewed*	2010 Q2 *Reviewed*	2011 H1 *Audited*	2010 H1 *Audited*
Operating revenue		1.849.929	1.731.587	3.802.882	3.543.867
Production cost and cost of sales		(1.148.883)	(1.102.659)	(2.430.970)	(2.360.608)
Gross profit		701.046	628.928	1.371.912	1.183.259
Other operating expenses	6	(188.528)	(177.365)	(353.408)	(233.081)
Results from operating activities		512.518	451.563	1.018.504	950.178
Finance income		45.206	717.637	72.569	801.517
Finance costs		(907.407)	(247.239)	(1.377.329)	(564.095)
Changes in fair value of derivatives		(95.143)	169.609	23.116	215.971
Changes in fair value of embedded derivatives in sales contracts		(1.481.875)	(5.315.017)	1.125.869	(4.104.420)
Net finance expenses	7	(2.439.219)	(4.675.010)	(155.775)	(3.651.027)
Share of profit (loss) of associates		64.423	(104.860)	63.740	(163.404)
(Loss) profit before income tax		(1.862.278)	(4.328.307)	926.469	(2.864.253)
Income tax		385.203	742.137	(172.546)	468.069
(Loss) profit for the period		(1.477.075)	(3.586.170)	753.923	(2.396.184)
Other comprehensive income					
Foreign currency translation difference of associates		7.644	(41.449)	26.045	(67.583)
Other comprehensive income for the period, net of income tax		7.644	(41.449)	26.045	(67.583)
Total comprehensive income for the period		(1.469.431)	(3.627.619)	779.968	(2.463.767)

Earnings per share

Basic and diluted (loss) earnings per share		(0,21)	(0,52)	0,11	(0,37)

Notes on pages 9 to 12 are an integral part of these financial statements

Condensed Interim Financial Statements 30 June 2011 of HS Orka hf. 5 All amounts are in thousands of ISK

Statement of Financial Position as at 30 June 2011

Assets	Notes	30.6.2011	31.12.2010
		Audited	*Audited*
Operating assets		24.401.406	24.781.700
Operating assets under construction		5.310.593	4.746.587
Intangible assets		974.724	981.275
Investments in associates	8	723.541	638.611
Investments in other companies		27.075	27.075
Bonds		528.389	495.604
Embedded derivatives in electric power sale contracts		6.296.939	5.096.653
Deferred tax asset		103.772	276.318
Long term receivable		649.141	559.221
Total non-current assets		39.015.580	37.603.044
Inventories		373.149	340.926
Bonds		0	647.793
Trade and other receivables		1.094.210	1.070.586
Embedded derivatives in electric power sales contracts		755.551	829.969
Cash and cash equivalents	9	1.866.984	1.043.250
Total current assets		4.089.894	3.932.524
Total assets		43.105.474	41.535.568
Equity			
Share capital		6.962.919	6.962.919
Share premium and statutory reserve		3.218.660	3.218.660
Translation reserve		322.679	296.634
Revaluation reserve		1.685.346	1.723.505
Reserve for shares in associate		(37.157)	(37.157)
Retained earnings		5.923.477	5.131.395
Total equity		18.075.924	17.295.956
Liabilities			
Loans and borrowings	10	18.511.335	18.570.882
Pension obligation		1.504.000	1.400.000
Currency and interest rate swap contract		815.388	886.753
Total non-current liabilities		20.830.723	20.857.635
Loans and borrowings		2.151.865	1.951.594
Trade and other payables		1.726.377	1.158.045
Currency and interest rate swap contract		320.585	272.338
Total current liabilities		4.198.827	3.381.977
Total liabilities		25.029.550	24.239.612
Total equity and liabilities		43.105.474	41.535.568

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Statement of Changes in Equity
for the six months ended 30 June 2011

	Share capital	Share premium and statutory reserve	Translation reserve	Revaluation reserve	Reserve for shares in associate	Retained earnings	Total
1 January to 30 June 2010							
Equity at 1 January 2010	6.118.387	1.529.597	407.383	1.830.311	0	4.203.116	14.088.794
Total comprehensive income			(67.583)			(2.396.184)	(2.463.767)
Depreciation transferred to retained earnings				(24.583)		24.583	0
Share capital increase	844.532	1.689.063					2.533.595
Effects of put option on own shares of an associate					(277.354)		(277.354)
Expired put options on own shares of an associate					14.716		14.716
Equity at 30 June 2010	6.962.919	3.218.660	339.800	1.805.728	(262.638)	1.831.515	13.895.984
1 January to 30 June 2011							
Equity at 1 January 2011	6.962.919	3.218.660	296.634	1.723.505	(37.157)	5.131.395	17.295.956
Total comprehensive income			26.045			753.923	779.968
Depreciation transferred to retained earnings				(38.159)		38.159	0
Equity at 30 June 2011	6.962.919	3.218.660	322.679	1.685.346	(37.157)	5.923.477	18.075.924

Notes on pages 9 to 12 are an integral part of these financial statements

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Statement of Cash Flows
for six months ended 30 June 2011

	Notes	2011 H1 *Audited*	2010 H1 *Audited*
Cash flows from operating activities			
Profit (loss) for the period		753.923	(2.396.184)
Items not affecting working capital:			
Gain on sale of operating assets		(2.675)	0
Increase in pension fund obligation		104.000	31.500
Depreciation and amortization		486.791	529.585
Net finance expenses		155.775	3.651.027
Share of (profit) loss of associates		(63.740)	163.404
Income tax expense		172.546	(468.069)
		1.606.620	1.511.263
Inventories, increase		(32.223)	(18.389)
Receivables, increase		(71.745)	(522.086)
Current liabilities, increase		50.522	568.346
Net cash from operations before interest and taxes		1.553.174	1.539.134
Interest income received		13.303	4.237
Interest and indexation costs paid		(291.502)	(343.320)
Net cash from operating activities		1.274.975	1.200.051
Cash flows from investing activities			
Acquisition of operating assets during the period		(119.313)	(1.853.289)
Payments for operating assets acquired in 2010		(31.093)	0
Proceeds from sale of operating assets		3.200	0
Acquisition of intangible assets		(7.977)	(37.726)
Dividend received		4.855	0
Proceeds from sale of bonds		634.164	742.908
Net cash provided by (used in) investing activities		483.836	(1.148.107)
Cash flows from financing activities			
Share capital increase		0	2.533.595
Repayment of borrowings		(941.471)	(822.792)
Repayment of loan from HS Veitur		0	(378.816)
Short-term loans, decrease		0	(549.013)
Net cash (used in) provided by financing activities		(941.471)	782.974
Increase in cash and cash equivalents		817.340	834.918
Cash and cash equivalents at 1 January		1.043.250	151.782
Effect of exchange rate fluctuations on cash held		6.394	(2.435)
Cash and cash equivalents at 30 June		1.866.984	984.265
Investing and financing activities not affecting cash flows			
Acquisition of operating assets		(537.187)	(257.062)
Current liabilities		537.187	257.062

Notes on pages 9 to 12 are an integral part of these financial statements

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Notes to the Condensed Interim Financial Statements

1. Reporting entity

HS Orka hf. (the "Company") is a limited liability company domiciled in Iceland. The Company's registered office is Brekkustígur 36, Reykjanesbær, Iceland. The Company handles production of electric power, hot water and geothermal steam and sale of electric power. The interim financial statements of the Company are part of the consolidated interim financial statements of the Ultimate Parent company Alterra Power Corp., 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

The Company's interim financial statements are prepared in accordance with *IAS 34, Interim Financial Reporting*. They do not include all of the information required for full annual financial statements and should be read in conjunction with the financial statements of the Company as at and for the year ended 31 December 2010.

These condensed interim financial statements were approved by the Board of Directors on 26 August 2011.

3. Significant accounting policies

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 2010.

The 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 are recognized at revalued cost, which was the fair value at the revaluation dates of 1.1.2008 and 31.12.2009
- 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
- financial assets available for sale are measured at fair value.

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 2010.

5. Segment reporting

The Company has the following business segments which are used by management for decision making.

1 January - 30 June 2011	Power production	Electricity sale	Other	Total
External revenue	2.206.987	1.106.275	489.620	3.802.882
Inter-segment revenue	412.224			412.224
Total segment revenue	2.619.211	1.106.275	489.620	4.215.106
Segment operating results	1.032.410	(44.245)	30.339	1.018.504
Unallocated items				
Net finance expenses				(155.775)
Share of profit of associates				63.740
Income tax expense				(172.546)
Profit for the period				753.923
Segment assets	30.039.827	54.770	592.126	30.686.723
Unallocated assets				12.418.751
Total assets				43.105.474
Unallocated liabilities				25.029.550
Capital expenditures	655.509	1.968	7.000	664.477
Depreciation and amortization	463.959	2.725	20.107	486.791

1 January - 30 June 2010	Power production	Electricity sale	Other	Total
External revenue	2.071.880	1.033.235	438.752	3.543.867
Inter-segment revenue	370.265			370.265
Total segment revenue	2.442.145	1.033.235	438.752	3.914.132
Segment operating results	919.924	(570)	30.824	950.178
Unallocated items				
Net finance expenses				(3.651.027)
Share of loss of associates				(163.404)
Income tax				468.069
Loss for the period				(2.396.184)
Segment assets	29.597.274	59.055	629.229	30.285.558
Unallocated assets				10.001.309
Total assets				40.286.867
Unallocated liabilities				26.390.883
Capital expenditures	2.122.507	3.140	22.430	2.148.077
Depreciation and amortization	506.152	2.992	20.441	529.585

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5. Segment reporting, contd.:

Major customers

Revenues from one customer of the Company's Production segment represents approximately ISK 1,678 million of the Company's total revenues during the period (H1 2010: ISK 1,589 million).

Revenues from HS Veitur hf. represents ISK 852 million during the period (H1 2010: ISK 825 million) and relates to segments as follows:

	Power production	Electricity sale	Other	Total
Revenues 1.1.2011 - 30.6.2011	348.092	101.207	402.370	851.669
Revenues 1.1.2010 - 30.6.2010	337.904	100.492	386.432	824.828

6. Other operating expenses

Operating expenses specifies as follows:	2011 Q2 *Reviewed*	2010 Q2 *Reviewed*	2011 H1 *Audited*	2010 H1 *Audited*
Salaries and related expenses	34.722	29.443	72.682	59.040
Increase in pension fund commitment	4.178	(844)	40.559	7.778
Administrative expenses	145.341	71.757	231.643	84.033
Depreciation and amortization	4.287	4.097	8.524	9.318
Assets subject to final write off	0	72.912	0	72.912
Total operating expenses	188.528	177.365	353.408	233.081

Majority of the increase in administrative expenses are related to the arbitration case with Norðurál.

7. Net finance expenses

Net finance expenses specifies as follows:		2011 Q2 *Reviewed*	2010 Q2 *Reviewed*	2011 H1 *Audited*	2010 H1 *Audited*
Interest income on loans and receivables		23.315	4.236	36.355	4.236
Interest income on available for sale securities		0	32.060	3.428	97.445
Net foreign exchange difference		0	578.164	0	596.659
Fair value changes on financial assets through profit and loss		21.891	103.177	32.786	103.177
Total finance income		45.206	717.637	72.569	801.517
Interest expenses		(150.606)	(187.410)	(303.267)	(374.560)
Indexation		(94.081)	(42.329)	(115.941)	(89.067)
Impairment of shares in other companies	10	0	(17.500)	0	(100.468)
Net foreign exchange difference		(662.720)	0	(958.121)	0
Total finance costs		(907.407)	(247.239)	(1.377.329)	(564.095)
Changes in fair value of derivatives		(95.143)	169.609	23.116	215.971
Changes in fair value of embedded .... derivative in electric power sale contracts		(1.481.875)	(5.315.017)	1.125.869	(4.104.420)
Net finance expenses		(2.439.219)	(4.675.010)	(155.775)	(3.651.027)

8. Share in Bláa Lónið ehf.("Blue Lagoon") and related companies

During the period the Board of directors of the Blue Lagoon confirmed a demerger of the Company into four companies; Bláa Lónið ehf., Blue Lagoon International ehf., Hótel Bláa Lónið ehf. and Hreyfing Eignarhaldsfélag ehf. HS Orka hf. holds a 24.36% share in each company. The calculations of the Company's share in the equity and comprehensive income of the Blue Lagoon are based on draft financial informations for the first six months of 2011 but financial informations are not available for other related companies.

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9. Restricted cash

According to collateral agreement concluded in March 2010 with the Company's lenders to secure loan repayments, cash in foreign currency up to ISK 501 million (USD 4.5 million) is dedicated for repayment of loans.

10. Loans and borrowings

At the end of February 2011, the Company made an agreement with one of its lenders for temporary waiver of covenants where the lender waives its original covenants for the year 2011 in exchange for relaxed covenants. An uncertainty exists relating to the interpretation of indexation when calculating certain covenants. If indexation is not included the Company complies with all effective covenants in its loan agreements.

11. Other matters

Litigations and claims

In 2007, HS Orka hf, entered into a conditional power sale agreement with Nordural to sell power from a new power plant at Reykjanes, which is currently being prepared, to a new aluminum smelter in Helguvík. The agreement contained a number of conditions, which were not fulfilled by the time set out in the agreement. Accordingly, HS Orka holds the view that the agreement has lapsed in accordance with its terms and management view is that HS Orka has a strong case. Nordural disputes this interpretation and maintains that the agreement is in force. The agreement provides that disputes shall be resolved by arbitration and Nordural initiated arbitration proceedings to determine the validity of the agreement. The arbitration proceedings were held 24-27 of May, 2011 and the arbitration has until end of September, 2011 to reach a conclusion. There is an uncertainty about the conclusion of the arbitration, which leads to uncertainty if the electricity will be sold to the aluminum smelter or to other customers.

Trölladyngja

According to first recommendation of the steering committee of “Rammaáætlun II” to the parliament, regarding categorizing the potential hydro and geothermal power sites in three groups: protected site, pending site and power developing site. The Trölladyngja area is categorized as a pending site where more information and data is required. The recommendation is now for dictums at all stake holders. HS Orka will by reasoning oppose the recommendation. In the case the recommendation will stand, i.e. an impairment test of the assets of HS orka at Trölladyngja must be undertaken. The carrying amount of those assets is ISK 675 million.