HS Orka hf.

Condensed Interim Financial Statement
nine months ended 30 September 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 September 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 5,551 million in the first nine months of the year 2011 (2010: ISK 5,144 million) and the loss of the period amounted to ISK 932 million (2010: ISK 1,238 million profit). Comprehensive loss amounted to ISK 929 million (2010: ISK 1,167 million comprehensive profit). According to the statement of financial position, the Company's assets amounted to ISK 39,855 million at the end of September 2011 (at year end 2010: ISK 41,536 million). Equity amounted to ISK 16,404 million at the end of September 2011 (at year end 2010: ISK 17,296 million) or 41.2% 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 September 2011 and its financial performance and changes in cash flows in the period from 1 January to 30 September 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 September 2011 and confirmed by means of their signatures.

Reykjanesbær, 14 November 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 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 September 2011 and the related statements of comprehensive income, changes in equity and cash flows for the three-month period then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this 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 interim financial information is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Emphasis of matter

Without qualifying our conclusion we draw attention to note 12 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. We also would like to draw attention to note 13 to the financial statements which describes the uncertainty regarding the resolution of the Arbitration case due to the dispute with Nordural. Should there be a further delay with the resolution or if the conclusion is unfavorable to the Company it can affect when the sale can start and if the delay will affect the recoverable amount of operating assets under construction.

Reykjavík, 14 November 2011.

KPMG ehf.

Sæmundur Valdimarsson
Margret G. Flóvenz

Statement of Comprehensive Income
for the nine months ended 30 September 2011

	Notes	2011 Q3	2010 Q3	2011 Jan-Sept	2010 Jan-Sept
Operating revenue		1.747.765	1.599.726	5.550.647	5.143.593
Production cost and cost of sales		(1.236.003)	(1.090.908)	(3.666.973)	(3.457.834)
Gross profit		511.762	508.818	1.883.674	1.685.759
Other operating expenses	6	(134.443)	(75.794)	(487.851)	(302.557)
Results from operating activities		377.319	433.024	1.395.823	1.383.202
Finance income		384.714	783.162	98.550	1.527.313
Finance costs		(184.326)	(186.252)	(1.202.922)	(692.981)
Changes in fair value of derivatives		127.138	254.494	150.254	470.465
Changes in fair value of embedded derivatives in sales contracts		(2.938.843)	3.075.726	(1.812.974)	(1.028.694)
Net finance (expenses) income	7	(2.611.317)	3.927.130	(2.767.092)	276.103
Share of profit (loss) of associates		101.100	59.192	164.840	(104.212)
(Loss) profit before income tax		(2.132.898)	4.419.346	(1.206.429)	1.555.093
Income tax		446.793	(784.828)	274.247	(316.759)
(Loss) profit for the period		(1.686.105)	3.634.518	(932.182)	1.238.334
Other comprehensive income					
Foreign currency translation difference of associates		(22.826)	(3.875)	3.219	(71.458)
Other comprehensive income for the period, net of income tax		(22.826)	(3.875)	3.219	(71.458)
Total comprehensive income for the period		(1.708.931)	3.630.643	(928.963)	1.166.876

Earnings per share

Basic and diluted (loss) earnings per share		(0,24)	0,52	(0,13)	0,19

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

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

Statement of Financial Position
as at 30 September 2011

Assets	Notes	30.9.2011	31.12.2010
Operating assets		26.011.963	24.781.700
Operating assets under construction	8	3.511.381	4.746.587
Intangible assets		977.021	981.275
Investments in associates	9	861.972	638.611
Investments in other companies		27.075	27.075
Bonds		513.224	495.604
Embedded derivatives in electric power sale contracts		3.811.854	5.096.653
Deferred tax asset		550.565	276.318
Prepaid lease and royalty fee	10	441.409	460.238
Long term receivable		187.386	98.983
Total non-current assets		36.893.850	37.603.044
Inventories		376.851	340.926
Bonds		0	647.793
Trade and other receivables		1.011.825	1.070.586
Embedded derivatives in electric power sales contracts		301.794	829.969
Cash and cash equivalents	11	1.270.469	1.043.250
Total current assets		2.960.939	3.932.524
Total assets		39.854.789	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		299.853	296.634
Revaluation reserve		1.666.266	1.723.505
Reserve for shares in associate		0	(37.157)
Retained earnings		4.256.452	5.131.395
Total equity		16.404.150	17.295.956
Liabilities			
Loans and borrowings	12	17.575.149	18.570.882
Pension obligation		1.549.000	1.400.000
Currency and interest rate swap contract		703.919	886.753
Total non-current liabilities		19.828.068	20.857.635
Loans and borrowings		2.208.394	1.951.594
Trade and other payables		1.109.260	1.158.045
Currency and interest rate swap contract		304.917	272.338
Total current liabilities		3.622.571	3.381.977
Total liabilities		23.450.639	24.239.612
Total equity and liabilities		39.854.789	41.535.568

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

Condensed Interim Financial Statements 30 September 2011 of HS Orka hf. 6 All amounts are in thousands of ISK

Statement of Changes in Equity
for the nine months ended 30 September 2011

	Share capital	Share premium and statutory reserve	Translation reserve	Revaluation reserve	Reserve for shares in associate	Retained earnings	Total
1 January to 30 September 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			(71.458)			1.238.334	1.166.876
Depreciation transferred to retained earnings				(44.151)		44.151	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 September 2010	6.962.919	3.218.660	335.925	1.786.160	(262.638)	5.485.601	17.526.627
1 January to 30 September 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 loss			3.219			(932.182)	(928.963)
Depreciation transferred to retained earnings				(57.239)		57.239	0
Excercised put option on own shares of an associate					37.157		37.157
Equity at 30 September 2011	6.962.919	3.218.660	299.853	1.666.266	0	4.256.452	16.404.150

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

Condensed Interim Financial Statements 30 September 2011 of HS Orka hf. 7 All amounts are in thousands of ISK

Statement of Cash Flows
for nine months ended 30 September 2011

	Notes	2011 Jan-Sept	2010 Jan-Sept
Cash flows from operating activities			
(Loss) profit for the period		(932.182)	1.238.334
Items not affecting working capital:			
Gain on sale of operating assets		(2.675)	0
Increase in pension fund obligation		149.000	27.800
Depreciation and amortization		726.194	758.066
Net finance expenses		2.767.092	(276.103)
Share of (profit) loss of associates		(164.840)	104.212
Income tax expense		(274.247)	316.759
		2.268.342	2.169.068
Inventories, (increase), decrease		(35.925)	14.737
Receivables, increase		(14.321)	(165.799)
Current liabilities, increase		78.632	68.256
Net cash from operations before interest and taxes		2.296.728	2.086.262
Interest income received		44.545	7.580
Interest and indexation costs paid		(477.546)	(529.766)
Net cash from operating activities		1.863.727	1.564.076
Cash flows from investing activities			
Acquisition of operating assets during the period		(515.103)	(2.078.769)
Payments for operating assets acquired in 2010		(244.142)	0
Proceeds from sale of operating assets		3.200	0
Acquisition of intangible assets		(15.232)	(51.089)
Acquisition of shares in other companies		(23.000)	(35.000)
Dividend received		4.855	0
Proceeds from sale of bonds		634.164	1.100.558
Net cash used in investing activities		(155.258)	(1.064.300)
Cash flows from financing activities			
Share capital increase		0	2.533.595
Repayment of borrowings		(1.536.116)	(1.371.875)
Repayment of loan from HS Veitur		0	(378.816)
Short-term loans, decrease		0	(549.013)
Net cash (used in) provided by financing activities		(1.536.116)	233.891
Increase in cash and cash equivalents		172.353	733.667
Cash and cash equivalents at 1 January		1.043.250	151.782
Effect of exchange rate fluctuations on cash held		54.866	(72.636)
Cash and cash equivalents at 30 September		1.270.469	812.813
Investing and financing activities not affecting cash flows			
Acquisition of operating assets		(187.187)	(635.538)
Current liabilities		187.187	257.062
Sale of bonds		0	378.476

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

Condensed Interim Financial Statements 30 September 2011 of HS Orka hf. 8 All amounts are in thousands of ISK

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 14 November 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 segment reporting comprise the industries, which form the basis for managerial decision taking.

1 January - 30 September 2011	Power production	Electricity sale	Other	Total
External revenue	3.236.775	1.609.712	704.160	5.550.647
Inter-segment revenue	491.180			491.180
Total segment revenue	3.727.955	1.609.712	704.160	6.041.827
Segment operating results	1.277.779	73.149	44.895	1.395.823
Unallocated items				
Net finance expenses				(2.767.092)
Share of profit of associates				164.840
Income tax				274.247
Loss for the period				(932.182)
Segment assets	29.858.701	52.711	588.953	30.500.365
Unallocated assets				9.354.424
Total assets				39.854.789
Unallocated liabilities				23.450.639
Capital expenditures	705.402	2.418	9.702	717.522
Depreciation and amortization	692.394	3.518	30.282	726.194

1 January - 30 September 2010	Power production	Electricity sale	Other	Total
External revenue	2.980.631	1.525.983	636.979	5.143.593
Inter-segment revenue	481.627			481.627
Total segment revenue	3.462.258	1.525.983	636.979	5.625.220
Segment operating results	1.229.066	115.436	38.700	1.383.202
Unallocated items				
Net finance income				276.103
Share of loss of associates				(104.212)
Income tax				(316.759)
Profit for the period				1.238.334
Segment assets	29.997.263	56.735	620.399	30.674.397
Unallocated assets				11.011.389
Total assets				41.685.786
Unallocated liabilities				24.159.159
Capital expenditures	2.739.192	3.218	22.986	2.765.396
Depreciation and amortization	718.190	3.114	36.762	758.066

Condensed Interim Financial Statements 30 September 2011 of HS Orka hf. 10 All amounts are in thousands of ISK

Notes, continued

5. Segment reporting, contd.:

Major customers

Revenues from one customer of the Company's Production segment represents approximately ISK 2,502 million of the Company's total revenues during the period (1.1.2010 - 30.9.2010: ISK 2,306 million).

Revenues from HS Veitur hf. represents ISK 1,208 million during the period (1.1.2010 - 30.9.2010: ISK 1,185 million) and relates to segments as follows:

	Power production	Electricity sale	Other	Total
Revenues 1.1.2011 - 30.9.2011	482.242	145.313	580.642	1.208.197
Revenues 1.1.2010 - 30.9.2010	463.544	152.386	569.488	1.185.418

6. Other operating expenses

Operating expenses specifies as follows:

	2011 Q3	2010 Q3	2011 Jan-Sept	2010 Jan-Sept
Salaries and related expenses	32.848	30.305	105.530	89.345
Increase in pension fund commitment	20.038	403	60.597	8.181
Administrative expenses	78.734	40.319	310.377	124.352
Depreciation and amortization	2.823	4.767	11.347	14.755
Assets subject to final write off	0	0	0	65.924
Total operating expenses	134.443	75.794	487.851	302.557

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

7. Net finance (expenses) income

Net finance (expenses) income specifies as follows:

	2011 Q3	2010 Q3	2011 Jan-Sept	2010 Jan-Sept
Interest income on loans and receivables	13.583	5.553	49.937	9.789
Interest income on available for sale securities	0	6.448	3.429	103.892
Net foreign exchange difference	358.733	771.161	0	1.367.820
Fair value changes on financial assets through profit and loss	12.398	0	45.184	45.812
Total finance income	384.714	783.162	98.550	1.527.313
Interest expenses	(155.898)	(148.458)	(459.165)	(523.017)
Indexation	(28.428)	19.571	(144.369)	(69.496)
Impairment of shares in other companies	0	0	0	(100.468)
Fair value changes on financial assets through profit and loss	0	(57.365)	0	0
Net foreign exchange difference	0	0	(599.388)	0
Total finance costs	(184.326)	(186.252)	(1.202.922)	(692.981)
Changes in fair value of derivatives	127.138	254.494	150.254	470.465
Changes in fair value of embedded .... derivative in electric power sale contracts	(2.938.843)	3.075.726	(1.812.974)	(1.028.694)
Net finance (expenses) income	(2.611.317)	3.927.130	(2.767.092)	276.103

8. Operating assets

During Q3 the company reclassified boreholes recognized as operating assets under construction in amount of ISK 1,827 million to operating assets. These boreholes are and will be used for the existing Reykjanes plant.

Condensed Interim Financial Statements 30 September 2011 of HS Orka hf. 11 All amounts are in thousands of ISK

9. 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. When the demerger took place HS Orka ehf. held a 24.36% shares in all of the companies. In the third quarter the Bláa Lónið ehf. purchased own shares, with that the shares of HS Orka ehf. increased up to 31.71%. 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 nine months of 2011 but financial informations are not available for other related companies. The calculatins for the other companies are based on the financial statement of 2010.

10. Prepaid lease and royalty fee

The board of the company has exercised the right of converting the long term receivable with Grindavíkurbær into prepaid royalty fee and land lease. The prepaid royalty fee and land lease will be expensed over the remaining live time of the long term receivable or 63 years. The prepaid royalty fee is now classified as long term receivable. The expensed royalty fee has been deducted from the receivable amount, the expensed royalty fee amounts to ISK 55 million over the last two years.

11. 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 530 million (USD 4.5 million) is dedicated for repayment of loans.

12. Loans and borrowings

During the period illegal foreign exchange loan with Landsbankinn was recalculated, resulting in exchange gain amounting to ISK 103 million. The exchange gain is recognised among net foreign exchange difference. The loan is now dominated in Icelandic krona amounting to ISK 323 million in end of the period.

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

13. 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 November, 2011 to reach a conclusion. There is an uncertainty about the conclusion of the arbitration. Therefore there is an uncertainty if the electricity will be sold to the aluminum smelter or to other customers. Should there be a further delay with the resolution or if the conclusion is unfavorable to the Company it can affect when the sale can start and if the delay will affect the recoverable amount of operating assets under construction.

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.