

HS Orka hf.

Condensed Interim Financial Statements
for the nine months ended 30 September 2015
ISK 000's

HS Orka hf.
Brekkuvegur 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 September 2015 are prepared in accordance with the International Accounting Standard, IAS 34, *Interim Financial Reporting*.

According to the statement of comprehensive income, the Company's operating revenue amounted to ISK 5,388 million for the period 1 January - 30 September 2015 (2014: ISK 5,311 million) and the profit for the period amounted to ISK 290 million (2014: ISK 1,198 million). Total comprehensive income amounted to ISK 172 million (2014: ISK 1,142 million). According to the statement of financial position, the Company's assets amounted to ISK 44,079 million at the end of September 2015 (at year end 2014: ISK 44,383 million). Equity amounted to ISK 26,332 million at the end of September 2015 (at year end 2014: ISK 26,480 million) or 59.7% 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 30 September 2015, and its financial performance and changes in cash flows in the period from 1 January to 30 September 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 nine months ended 30 September 2015 and confirmed by means of their signatures.

Reykjanesbær, 10 November 2015.

The Board of Directors:

Ross Beaty
Chairman of the board

Gylfi Árnason

John Carson

Anna Skúladóttir

Lindsay Murray

Chief Executive Officer
Ásgeir Margeirsson

Independent Auditor's Review Report

To the Board of Directors of HS Orka hf.

We have reviewed the accompanying statement of financial position of HS Orka hf. as at 30 September 2015, the statements of comprehensive income, changes in equity and cash flows for the nine-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, 10 November 2015

KPMG ehf.

Sæmundur Valdimarsson
Margret G. Flóvenz

Statement of Comprehensive Income

for the nine months ended 30 September 2015

	Note	2015 Q3	2014 Q3	2015 YTD	2014 YTD
Operating revenue	5	1.562.521	1.729.172	5.388.219	5.311.329
Production cost and cost of sales		(1.211.556)	(1.348.200)	(3.933.841)	(4.043.634)
Gross profit		350.965	380.972	1.454.378	1.267.695
Other operating expenses	6	(117.116)	(106.116)	(409.360)	(327.093)
Results from operating activities		233.849	274.856	1.045.018	940.602
Finance income		541.031	74.448	383.215	349.834
Finance costs		(71.818)	(205.693)	(243.535)	(298.250)
Changes in fair value of currency and interest rate swap		0	(8.621)	0	32.597
Changes in fair value of embedded derivatives		(917.424)	65.487	(2.156.460)	(176.576)
Net finance expense income	7	(448.211)	(74.379)	(2.016.780)	(92.395)
Share of profit of associates	9	319.752	297.518	1.067.319	519.787
Profit before income tax		105.390	497.995	95.557	1.367.994
Income tax recovery (expense)		42.872	(40.095)	194.352	(169.641)
Profit for the period		148.262	457.900	289.909	1.198.353
Other comprehensive loss					
Items that will never be reclassified to profit or loss					
Remeasurement of defined benefit liability		(7.141)	(29.491)	(39.918)	(42.316)
Tax on items that will never be reclassified to profit or loss		1.428	5.898	7.984	8.463
		(5.713)	(23.593)	(31.934)	(33.853)
Items that may be reclassified to profit or loss					
Foreign currency translation difference on associates		(44.985)	(7.740)	(85.559)	(22.659)
Other comprehensive loss, net of tax		(50.698)	(31.333)	(117.493)	(56.512)
Total comprehensive income for the period		97.564	426.567	172.416	1.141.841
Earnings per share					
Basic and diluted earnings per share		0,02	0,06	0,04	0,15

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

Statement of Financial Position

as at 30 September 2015

Assets	Note	30.9.2015	31.12.2014
Operating assets		31.474.587	31.115.291
Operating assets under construction		3.846.017	3.818.171
Intangible assets		1.184.896	1.119.873
Investments in associates		1.856.874	1.197.628
Investments in other companies		27.075	27.075
Bonds		192.784	253.457
Prepaid lease and royalty fee		510.692	497.428
Long-term receivable		447.698	395.544
Total non-current assets		39.540.623	38.424.467
Inventories		488.683	431.198
Bonds		77.114	79.205
Trade and other receivables		1.023.679	1.278.181
Short-term investments		863.729	400.540
Cash and cash equivalents	8	2.084.753	3.769.443
Total current assets		4.537.958	5.958.567
Total assets		44.078.581	44.383.034
Equity			
Share capital		7.841.124	7.841.124
Share premium		7.038.855	7.038.855
Translation reserve		186.383	271.942
Revaluation reserve		5.634.079	5.852.098
Retained earnings		5.631.916	5.475.923
Total equity		26.332.357	26.479.942
Liabilities			
Loans and borrowings		8.337.313	10.131.860
Pension obligations		1.966.000	1.894.500
Deferred tax liability		455.817	658.153
Embedded derivatives in power sales contracts		3.074.305	1.260.382
Total non-current liabilities		13.833.435	13.944.895
Loans and borrowings		2.253.309	2.263.830
Trade and other payables		1.144.179	1.521.603
Embedded derivatives in power sales contracts		515.301	172.764
Total current liabilities		3.912.789	3.958.197
Total liabilities		17.746.224	17.903.092
Total equity and liabilities		44.078.581	44.383.034

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

Statement of Changes in Equity

for the nine months ended 30 September 2015

	Share capital	Share premium	Translation reserve	Revaluation reserve	Retained earnings	Total
1 January - 30 September 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					1.198.353	1.198.353
Other comprehensive loss			(22.659)		(33.853)	(56.512)
Total comprehensive (loss) income			(22.659)		1.164.500	1.141.841
Revaluation reserve transferred to retained earnings				(221.022)	221.022	0
Dividends paid ISK 0.03 per share					(220.000)	(220.000)
Equity at 30 September 2014	7.841.124	7.038.855	263.278	5.921.768	5.877.700	26.942.725
1 January - 30 September 2015						
Equity at 1 January 2015	7.841.124	7.038.855	271.942	5.852.098	5.475.923	26.479.942
Profit for the period					289.909	289.909
Other comprehensive loss			(85.559)		(31.934)	(117.493)
Total comprehensive (loss) income			(85.559)		257.975	172.416
Revaluation reserve transferred to retained earnings				(218.019)	218.019	0
Dividends paid ISK 0.04 per share					(320.000)	(320.000)
Equity at 30 September 2015	7.841.124	7.038.855	186.383	5.634.079	5.631.916	26.332.357

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

Statement of Cash Flows

for the nine months ended 30 September 2015

	2015 YTD	2014 YTD
Cash flows from operating activities		
Profit for the period	289.909	1.198.353
Adjustments:		
Loss (profit) on sale of operating assets	5.429 (	1.888)
Increase in pension obligations	31.582	42.184
Depreciation and amortization	1.055.104	1.022.545
Net finance expense	2.016.780	92.395
Share of profit of associates	(1.067.319) (	519.787)
Income tax (recovery) expense	(194.352)	169.641
	2.137.133	2.003.443
Inventories, increase	(57.485) (	26.270)
Receivables, decrease (increase)	241.857 (	172.228)
Current liabilities, (decrease) increase	(363.424)	49.461
Net cash from operations before interest and taxes	1.958.081	1.854.406
Interest income received	89.329	158.738
Interest and indexation costs paid	(219.035) (	260.307)
Net cash provided by operating activities	1.828.375	1.752.837
Cash flows from investing activities		
Acquisition of operating assets and assets under construction	(1.423.343) (	645.344)
Proceeds from sale of operating assets	9.513	6.510
Acquisition of intangible assets	(88.009) (	91.511)
Acquisition of shares in associates	(40.000) (	8.000)
Dividend received from associates	362.514	317.349
Investment in short-term investments	(1.608.870)	0
Proceeds from sale of short-term investments	1.153.042	0
Proceeds from repayment of bonds	82.549	84.479
Net cash used in investing activities	(1.552.604)	(336.517)
Cash flows from financing activities		
Paid dividends	(320.000) (	220.000)
Repayment of borrowings	(1.656.635) (	1.588.110)
Net cash used in financing activities	(1.976.635)	(1.808.110)
Decrease in cash and cash equivalents	(1.700.864)	(391.790)
Cash and cash equivalents at 1 January	3.769.443	4.413.403
Effect of exchange rate fluctuations on cash held	16.174	55.674
Cash and cash equivalents at 30 September	2.084.753	4.077.287

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 nine months ended 30 September 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 10 November 2015.

3. Significant accounting policies

Except as described below, the accounting policies applied by the Company in these condensed interim financial statements are the same as those applied by the Company in its financial statements as at and for the year ended 31 December 2014.

These condensed interim financial statements are prepared in Icelandic krona, which is the Company's functional currency and all amounts have been rounded to the nearest thousand. They are based on historical cost, except for the following:

- a part of operating assets is recognized at revalued cost, which was the fair value at the revaluation dates of 1.1.2008 and 31.12.2012
- derivative financial instruments are measured at fair value
- embedded derivatives in power sales contracts are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value

a Changes in accounting policies

The Company has adopted all new standards and amendments to standards with a date of initial application prior to or on 1 January 2015 that have been adopted by the EU (European Union). None of those effective from 1 January 2015 had effects on these financial statements.

4. Use of estimates and judgments

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key source of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2014.

Notes, continued

4. Segment reporting

The Company has three operating segments that are described below:

Power Production

Includes production and sale of electricity, heating water and fresh water from subterranean steam.

Electricity Sale

Includes purchases and sale of electricity to users other than mass users and power companies.

Other

Includes sale of service, rental of facilities and equipment, and other sales.

	Power production	Electricity sale	Other	Total
1 January - 30 September 2015				
External revenue	2.301.391	2.842.535	244.293	5.388.219
Inter-segment revenue	1.106.580			1.106.580
Total segment revenue	3.407.971	2.842.535	244.293	6.494.799
Segment operating results	604.203	402.758	38.057	1.045.018
Unallocated items				
Net finance expenses			(2.016.780)	
Share of profit of associates				1.067.319
Income tax recovery				194.352
Profit for the period				289.909
Segment assets	35.952.483	56.217	496.800	36.505.500
Unallocated assets				7.573.081
Total assets				44.078.581
Unallocated liabilities				17.746.224
Capital expenditures	1.506.651	4.701	0	1.511.352
Depreciation and amortization	1.017.691	5.753	31.660	1.055.104
1 January - 30 September 2014				
External revenue	2.087.850	2.499.391	724.088	5.311.329
Inter-segment revenue	1.075.074			1.075.074
Total segment revenue	3.162.924	2.499.391	724.088	6.386.403
Segment operating results	558.054	350.520	32.028	940.602
Unallocated items				
Net finance expenses			(92.395)	
Share of profit of associates				519.787
Income tax expense			(169.641)	
Profit for the period				1.198.353
Segment assets	35.425.457	50.601	547.655	36.023.713
Unallocated assets				8.337.609
Total assets				44.361.322
Unallocated liabilities				17.418.597
Capital expenditures	676.767	11.917	48.171	736.855
Depreciation and amortization	978.618	5.123	38.804	1.022.545

Notes, continued

5. Segment reporting, contd.:

Major customers

Revenues from one customer of the Company's power production segment represents approximately ISK 1,323 million of the Company's total revenues during the period (1.1.2014 - 30.9.2014: ISK 1,247 million).

Revenues from HS Veitur hf. amounted to ISK 975 million during the period (1.1.2014 - 30.9.2014: ISK 1,410 million) and relates to segments as follows:

	Power production	Electricity sale	Other	Total
Revenues 1.1. - 30.9.2015	588.844	204.189	182.038	975.071
Revenues 1.1. - 30.9.2014	514.800	207.012	687.805	1.409.617

6. Other operating expenses

Operating expenses specifies as follows:

	2015 Q3	2014 Q3	2015 YTD	2014 YTD
Salaries and related expenses	46.593	47.076	137.733	150.099
Changes in pension fund commitment	(12.388)	3.902	(1.408)	15.245
Administrative expenses	77.731	50.384	257.805	148.507
Depreciation and amortization	5.180	4.754	15.230	13.242
Total operating expenses	117.116	106.116	409.360	327.093

7. Net finance expenses

Net finance expenses specifies as follows:

	2015 Q3	2014 Q3	2015 YTD	2014 YTD
Interest income on cash, loans and receivables	44.967	64.314	141.480	203.867
Fair value changes on financial assets through profit and loss	7.800	10.134	35.251	33.648
Net foreign exchange gain	488.264	0	206.484	112.319
Total finance income	541.031	74.448	383.215	349.834
Interest expense	(57.886)	(90.160)	(204.239)	(268.917)
Indexation	(13.932)	(7.082)	(39.296)	(29.333)
Net foreign exchange loss	0	(108.451)	0	0
Total finance costs	(71.818)	(205.693)	(243.535)	(298.250)
Changes in fair value of swap contract	0	(8.621)	0	32.597
Changes in fair value of embedded derivatives	(917.424)	65.487	(2.156.460)	(176.576)
Net finance expense	(448.211)	(74.379)	(2.016.780)	(92.395)

8. Restricted cash

At the end of September 2015 cash in the amount of ISK 573 million (USD 4.5 million) (at year end 2014: ISK 571 million (USD 4.5 million)) was classified as restricted. The cash is dedicated to secure loan payments in accordance with a collateral agreement concluded in March 2010 with the Company's lenders.

9. Share of profit of associates

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

Notes, continued

10. Fair value of financial instruments

Fair value versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	30.9.2015		31.12.2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing loans and borrowings	10.590.622	10.251.933	12.395.690	12.103.473

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

Interest rates used for determining fair value for disclosure purpose

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date in the case of ISK denominated debt, embedded derivatives and bonds. For foreign denominated debt the discount rates are based on interbank rates. All discount rates include an adequate credit spread, and were as follows.

Interest rates used for determining fair value:

	30.9.2015	31.12.2014
Embedded derivatives in power purchase agreements (USD)	1.07%-4.27%	1.26%-4.84%
Bonds	5.0%	5.0%
Interest bearing long term liabilities	Libor + 300 bp	Libor + 250 bp

Currency and interest rate swaps are discounted at swap rates for foreign currency denominated legs and the Housing Finance Fund curve for ISK CPI indexed legs.

Fair value hierarchy:

The table below analyses assets and liabilities carried at fair value, sorted by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
30 September 2015				
Operating assets			31.474.587	31.474.587
Embedded derivatives .....	(	194.166)	(3.395.440)	(3.589.606)
Bonds		269.898		269.898
Investments in other companies			27.075	27.075
Short-term investments	863.729			863.729
Total	863.729	75.732	28.106.222	29.045.683

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.

Power purchase agreement

HS Orka hf has signed a power purchase agreement with Thorsil ehf., which is planning to construct and operate a silicon metal plant in Helguvík, Iceland. Under the contract, HS Orka would supply up to 32MW, a minority portion of the plant's power needs. The delivery of the power from HS Orka is subject to several conditions on behalf of both parties.

12. Subsequent events

In October HS Orka increased its investment in Vesturverk ehf. Total share of HS Orka after the investment is 52.49%.