Alterra
POWER CORP

FISCAL YEAR ENDED JUNE 30, 2011

Management's Discussion & Analysis

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INTRODUCTION

This Management's Discussion and Analysis ("MD&A") includes financial information from, and should be read in conjunction with the Audited Consolidated Financial Statements of Alterra Power Corp. (the "Company", formerly Magma Energy Corp.) for the fiscal years ended June 30, 2011 and 2010. The Company reports its financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles ("GAAP") in United States dollars ("U.S. dollars"). This MD&A was prepared with information available as of September 16, 2011.

Additional information and disclosure relating to the Company can be found on the Company's website at www.alterrapower.ca and on the SEDAR website at www.sedar.com**.** Information contained in or otherwise accessible through our website does not form part of the MD&A and is not incorporated into the MD&A by reference.

The Company was incorporated on January 22, 2008, pursuant to the *Business Corporations Act* (British Columbia) and effectively commenced operations in February 2008. The Company operates renewable power generating plants in Canada, the United States and Iceland and is actively exploring and developing additional renewable power projects in North America, South America, Continental Europe and Iceland. The Company's head office is located in Vancouver, British Columbia ("BC") Canada, it is a reporting issuer in all the Provinces of Canada except Quebec, and its common shares trade on the Toronto Stock Exchange ("TSX") under the symbol AXY.

The Company will be reporting under International Financial Reporting Standards ("IFRS") beginning with the first quarter ended September 30, 2011 and will also change its fiscal year end from June 30 to December 31. As a result, the Company will have a short fiscal year from July 1, 2011 to December 31, 2011 and its next full fiscal year will then commence on January 1, 2012.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A constitute forward-looking statements. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "designed", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements. Based on current available information, the Company believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that those expectations will prove to be correct. The forward-looking statements in this MD&A are expressly qualified by this statement, and readers are advised not to place undue reliance on the forward-looking statements.

HIGHLIGHTS

- On May 13, 2011, the Company and Plutonic Power Corporation ("Plutonic") merged to create a leading global renewable power producer. The Company now operates six geothermal, hydro, and wind power plants with total gross power capacity of 571 megawatts ("MW"), generating a projected 1,518,000 megawatt hours ("MWh") of electricity annually, and 150 MW of thermal hot water heating capacity.

- The Company completed a number of stepped acquisitions and dispositions of shares of HS Orka hf, including a recent successful sale of 25% to Jarðvarmi slhf ("Jarðvarmi"), a company owned by a group of 14 Icelandic pension funds. Since June 1, 2011, the Company has held a 75% interest in HS Orka.

- On September 15, 2011, the Company received an operating permit for its planned 80 MW expansion of the Reykjanes geothermal plant in Iceland. The permit formally allows the Company to install and place into service a new, currently-owned 50 MW turbine, as well as a 30 MW low pressure turbine that will be powered from existing steam production.

- The Company was awarded, in a competitive bidding process, two geothermal exploration concessions in Italy, known as PR Mensano ("Mensano") and PR Roccastrada ("Roccastrada"). These concessions are located near the historic Lardarello geothermal plant which has been producing electricity for nearly 100 years.

- The Company was awarded two geothermal exploration concessions in Peru, known as Crucero and Loriscota. These two concessions cover 37,400 hectares of land in southern Peru and are underlain by young volcanic rocks with numerous hot springs and other promising indicators of large geothermal systems. In July 2011, the Company was awarded an additional geothermal exploration concession in Peru, known as Pasto. This third concession covers 20,000 hectares and is adjacent to the Crucero concession.

- In August 2011, the Company was awarded two geothermal exploration concessions in the Upper Lillooet area, in BC, Canada, covering 4,942 hectares.

- In July 2010, the Company closed a public share offering of 40,334,628 common shares at a price of $1.12 Canadian dollar ("C$") per common share, including 4,620,342 common shares issued upon partial exercise of the underwriters' over-allotment option, for aggregate gross proceeds of $43.6 million. The funds were partially used to acquire additional common shares of HS Orka in August 2010.

1. OVERVIEW

General

The Company's mission is to be a leading global renewable power company by increasing its production of electricity through the advancement of its existing operating plants and projects, the discovery and development of new resources and the acquisition of renewable power plants and projects.

The Company's current portfolio of operating assets is as follows:

<u>Iceland</u>

- Reykjanes geothermal plant – 100 MW of baseload capacity and projected annual generation of 865,000 MWh of electricity (75% ownership).

- Svartsengi geothermal plant – 75 MW of capacity and projected annual generation of 450,000 MWh of electricity generation. 150 thermal MW of baseload hot water production capacity (75% ownership).

British Columbia, Canada

- Two run of river hydroelectric power plants, the East Toba and Montrose Creek facilities (the "Toba Montrose Facility") – 235 MW of capacity and projected annual generation of 727,000 MWh of electricity (40% ownership).

- Dokie wind generation project (the "Dokie Wind Farm") – 144 MW of capacity and projected annual generation of 330,000 MWh of electricity (51% ownership).

Nevada, USA

- Soda Lake geothermal plant – 16 MW of base load capacity and projected annual generation of 84,000 MWh of electricity.

The Company's current portfolio of planned expansions of existing operating plants, and assets under exploration and development includes the following:

Geothermal - Iceland

- HS Orka hf ("HS Orka"), a 75% owned subsidiary of the Company, plans to expand the Reykjanes plant's output from 100 MW to 180 MW in two phases pending permitting and new power purchase agreements ("PPAs") with one or more power purchasers. A 50 MW (Reykjanes 3) expansion is planned for 2012 (pending PPA negotiations). An additional 30 MW (Reykjanes 4) expansion is scheduled to come on line following the first expansion and it requires no additional drilling as the energy source is low pressure steam generated from current operations. In addition to the Reykjanes plant expansion, HS Orka has the capability to develop existing inferred and indicated resources at its Eldvörp and Krýsuvík exploration properties.

Geothermal – other exploration

- The Company has several advanced development properties which it intends to continue to advance on its own or with partners, including the Maule and Pellado properties in Chile, and the McCoy and Desert Queen properties in Nevada; as well as a number of other early stage properties and exploration concessions in British Columbia, Nevada, Utah, Italy, Chile and Peru.

Hydro

- The Company has 35 potential run of river hydro development projects and a potential pumped storage power generation site. The majority of these run of river hydro sites fall within a geographic area surrounding the Toba, Bute and Knight Inlets on the southwestern coast of British Columbia. The most advanced project is the Upper Toba Valley run of river project (124 MW), which has been awarded a 40 year energy purchase agreement from British Columbia Power Authority ("BC Hydro").

Wind

- The Company holds a 51% interest in the expansion rights to the Dokie Wind Farm project (156 MW).

Solar

- The Company holds an option to make an equity contribution of approximately C$6 million in 2012 to earn a 10% interest in the ABW Solar General Partnership, which is expected to acquire a 50 MW portfolio of five photovoltaic solar facilities to be built in Ontario by First Solar, Inc.

This table provides selected information about the Company's operating assets:

	Rekyjanes Iceland	**Svartsengi** Iceland	**Soda Lake** Nevada, US	**Toba Montrose** BC, Canada	**Dokie** BC, Canada
Type of generation	Geothermal	Geothermal	Geothermal	Run of River Hydro	Wind
Capacity	100 MW	75 MW	16 MW	235 MW	144 MW
Forecast electricity generation	865,000 MWh	450,000 MWh	84,000 MWh	727,000 MWh	330,000 MWh
Electricity generation for full FYE 2011	796,182 MWh	448,710 MWh	72,784 MWh	215,248 MWh *(1)*	75,629 MWh *(2)*
Electricity generation included in FYE 2011	754,949 MWh (Aug 17, 2010 to June 30, 2011)	431,882 MWh (Aug 17, 2010 to June 30, 2011)	72,784 MWh	178,890 MWh (May 13, 2011 to June 30, 2011)	25,024 MWh (May 13, 2011 to June 30, 2011)
% included in consolidated financial statements	100%	100%	100%	40%	51%

(1) Toba Montrose Facility commenced commercial operations on November 1, 2010

(2) Dokie Wind Farm commenced commercial operations on February 17, 2011

Acquisition of Plutonic Power Corporation

On May 13, 2011, the Company completed the acquisition of all of the issued and outstanding common shares of Plutonic (the "Plutonic Acquisition"). The aggregate consideration was $148.1 million in common shares of the Company and cash (the "Purchase Price").

During the past three years, Plutonic, in partnership with GE Energy Financial Services ("GE EFS"), developed, financed, constructed, and now operates, two run of river hydroelectric power plants and one wind farm, and assembled a portfolio of development stage run of river hydroelectric and wind power projects; as described above in Overview – General section.

The Company acquired all of the outstanding common shares of Plutonic on the basis of 2.38 common shares of the Company and Cdn. $0.0001 in cash for each Plutonic common share. In addition, all of the outstanding stock options to purchase Plutonic common shares are now exercisable for common shares of the Company in accordance with the same exchange ratio.

For more information about the Plutonic Acquisition, please refer to the "Joint Information Circular" dated March 30, 2011 available on the SEDAR website at www.sedar.com.

Acquisition of HS Orka

At July 1, 2010, the Company held a 46.18% interest in HS Orka. From July 1, 2010 to August 16, 2010, the Company equity accounted for its investment in HS Orka.

On August 17, 2010, the Company acquired an additional 38.03% of HS Orka resulting in the Company's ownership of HS Orka increasing to 84.21%. Consideration for this acquisition consisted of cash of 7.2 billion Icelandic Krona ("ISK") ($60.5 million) and the issuance of 24,808,569 common shares of the Company worth $28.1 million.

On September 3, 2010, the Company acquired an additional 14.32% of HS Orka by assuming a bond with the municipality of Reykjanesbær with a principal value of ISK 6.3 billion ($53.6 million). The fair value of the bond assumed on acquisition was $44.2 million.

On May 31, 2011, the Company acquired an additional 1.47% of HS Orka from four Icelandic municipalities for ISK 475.1 million ($4.2 million).

On June 1, 2011, the Company completed the sale of 25% of HS Orka to Jarðvarmi, a company owned by a group of 14 Icelandic pension funds, for ISK 8.06 billion ($70.1 million).

Since June 1, 2011, the Company has held a 75% interest in HS Orka, with Jarðvarmi owning the remaining 25%. Jarðvarmi holds an option until February 10, 2012 to purchase additional common shares from HS Orka's treasury that, if exercised, would increase its stake in HS Orka by 8.4% at a cost of ISK 4.7 billion (approximately $40.7 million). Assuming the option is exercised, Jarðvarmi would hold 33.4% of HS Orka and the Company's interest in HS Orka would be reduced to 66.6%.

Jarðvarmi holds significant minority shareholder rights, including the right to appoint Board members and participate in non-ordinary course of business decisions of HS Orka as long as it continues to hold at least a 22.5% interest in HS Orka.

2. PROJECT UPDATES AND OUTLOOK

Operating Plants and Expansion Projects

HS Orka, Iceland

The Company holds a 75% interest in HS Orka, the largest privately owned energy company in Iceland and which supplies 9% of the country's electricity demand. HS Orka produces and sells electricity from two geothermal operating plants located in the Reykjanes peninsula of Iceland. Both operations are connected to the Icelandic transmission grid with a 132 kilovolt ("kV") transmission line. The Reykjanes plant has a 100 MW capacity and generates yearly 865,000 MWh of electricity and the Svartsengi plant has a 75 MW capacity, generates 450,000 MWh of electricity and 150 thermal MW of hot water for district heating. HS Orka has three PPAs: one with Landsvirkjun that terminates at the end of 2019 and two with Nordural, an operator of aluminum smelters in Iceland, that terminate in October 2011 and June 2026. A new PPA was signed in February 2011 committing 30 MW of capacity to Iceland Silica Corporation ehf. beginning in May 2013.

The obligations of HS Orka are non-recourse to the Company.

Reykjanes Expansion Project

HS Orka plans to expand the Reykjanes plant's output to 180 MW in two phases pending permitting and new PPAs with one or more power purchasers. A 50 MW (Reykjanes 3) expansion is planned for 2013. In June 2010, HS Orka purchased a 50 MW Fuji electric turbine generator for its Reykjanes 3 expansion phase. The Reykjanes geothermal plant currently produces 100 MW from two 50 MW Fuji electric units. An additional 30 MW (Reykjanes 4) expansion is scheduled to commence following the Reykjanes 3 expansion which will require no additional drilling as the source is low pressure steam generated from current operations.

The current budget for the Reykjanes 3 expansion is $131.0 million, of which approximately $46.5 million has already been incurred. The remaining cost for the expansion is expected to be funded mainly from HS Orka's cash on hand, as needed, and from project debt financing.

To proceed with the expansion of the Reykjanes plant, HS Orka has applied for an expansion to its operating permit from the National Energy Authority ("Orkustofnun"). On September 15, 2011, the Company received an operating permit for its planned 80 MW expansion of the Reykjanes plant. The permit formally allows the Company to install and place into service a new, currently-owned 50 MW turbine, as well as a 30 MW low pressure turbine that will be powered from existing steam production.

On April 23, 2007, HS Orka entered into a conditional PPA with Norðurál Helguvík sf. ("Norðurál") to sell power from HS Orka's expansion program to a new aluminum smelter to be constructed and located in Reykjanesbær. The PPA contained a number of conditions which the Company believes were not fulfilled by Norðurál. Accordingly the Company holds the view that the PPA has lapsed in accordance with its terms. Norðurál disputes this interpretation and maintains that the PPA remains a valid agreement. The PPA provides that disputes relating to the PPA shall be resolved by arbitration. Norðurál initiated arbitration proceedings to determine the validity of the PPA. The arbitration hearings were initiated in July 2010 and a hearing took place in May 2011. A tribunal conclusion is expected in October 2011.

As the Company now has majority ownership in HS Orka, the Company's consolidated financial statements incorporate HS Orka's financial results for the period from August 17, 2010. The Company's consolidated revenues are impacted by the indexation of a portion of HS Orka's revenues to changes in aluminum prices. As aluminum prices increase or decrease so will a portion of revenues and as a result there will be a change in the fair value of the embedded derivatives for certain of HS Orka's PPAs. This will be somewhat offset by the change in the fair value of certain bonds held by the Company, which are also indexed to aluminum prices.

Soda Lake Operation, Nevada, USA

The Company's 100% owned Soda Lake plant consists of two binary geothermal power production facilities currently operating at 16 MW gross capacity.

The Soda Lake plant sells all of its current electricity output to NV Energy, Inc. ("NV Energy") under two 30-year PPAs that terminate in 2020. The Company is currently in discussions with NV Energy to negotiate an improvement in the pricing under the current PPAs and for the planned increase in electricity output from potential plant expansions.

Soda Lake Phase 1 Expansion

The Soda Lake Phase 1 expansion highlights include the following key activities undertaken to increase nameplate capacity:

(1) Plant refurbishments – completed September/October 2009

(2) Addition of new production well 45A-33 - placed in service May 2010

(3) Addition of steam/mixing system well 41-33 – placed in service September 2010

(4) Addition of new production well 41B-33 - placed in service December 2010

(5) Drilling new well 25A-33 – completed in 2010 and enhanced through stimulation in February 2011. The well was commissioned following the enhancement and was injected with geothermal brine at over 600 gallons per minute, validating it as a commercial injection well with measurable connection to the existing geothermal field.

The Company completed the Phase 1 expansion at a total cost of approximately $21.7 million. Net output from the facility to date has increased from approximately 60,000 to 73,000 MWh of electricity on an annual basis as a result of the Phase 1 expansion program, though certain follow-on optimizations related to the Phase I expansion expected to result in up to 2.0 MW of incremental gross production capacity have not yet been fully implemented. The Company is currently preparing to re-submit an application under Section 1603 of the American Recovery and Reinvestment Tax Act of 2009, United States Department of the Treasury, for payment with respect to certain improvements in the form of an Energy Grant, for which 10% to 30% of the eligible project costs may be received in lieu of tax credits.

Soda Lake Phase 2 Expansion

The Soda Lake Phase 2 expansion commenced in June 2010 with the receipt of the necessary environmental permits from the US Bureau of Land Management ("BLM") to conduct a 3D/3C Seismic survey on the Soda Lake property, funded in part from a $5.0 million US Department of Energy ("DOE") grant received by the Company. The survey commenced in July 2010 and the analysis is now essentially complete. In addition to the seismic survey the Company commenced and completed a thermal gradient drilling program following receipt of permits from the BLM.

A report on the findings of the Seismic survey was submitted to DOE and permission was granted to proceed with the drilling of two deep observation wells. Along with additional geological and geophysical studies these activities have delineated two targets for the deep observation well drilling, which as of the date of this MD&A is underway.

Toba Montrose, British Columbia, Canada

The Company has a 40% economic interest and 51% voting interest in Toba Montrose General Partnership ("TMGP") which owns the Toba Montrose Facility. The remaining 60% economic interest in TMGP is held by GE EFS. After 35 years of operations, the Company's economic interest in TMGP will increase from 40% to 51% for no additional consideration. The Toba Montrose Facility commenced commercial operation in November 2010. The Toba Montrose Facility is expected to generate 727,000 MWh of electricity annually.

All electricity generated from the Toba Montrose Facility is sold to BC Hydro under a 35 year Electricity Purchase Agreement ("EPA"). The Toba Montrose Facility is EcoLogo certified and has commenced receiving funding under the Government of Canada's ecoEnergy for Renewable Power program ("ecoEnergy program") of up to C$72.8 million in funding during its first ten years of operations, based on C$10 per MWh of electricity generated by the Toba Montrose Facility and sold to BC Hydro.

Seasonally forecasted production from the Toba Montrose Facility is as follows:

January – March	4%
April – June	32%
July – September	52%
October – December	12%

During operations, TMGP continues to work with its First Nations partners: the Klahoose, Sliammon and Sechelt First Nations.

Currently, under Canadian GAAP, the Company accounts for its investment in TMGP using the proportionate consolidation method of accounting whereby the Company records its 40% share of TMGP's assets, liabilities, revenues and expenses. From July 1, 2011 under IFRS, the Company will adopt equity accounting for its investment in TMGP.

The obligations of TMGP are non-recourse to the Company.

Dokie Wind Farm, British Columbia, Canada

The Company has a 51% interest in Dokie General Partnership ("DGP") which owns the recently commissioned Dokie Wind Farm in northern British Columbia. The remaining 49% interest in DGP is held by GE EFS. The Dokie Wind Farm consists of 48 Vestas V-90 wind turbines that are expected to generate an average annual 330,000 MWh of electricity.

In February 2011, DGP commenced selling electricity to BC Hydro under a 25 year EPA. The Dokie Wind Farm is Ecologo certified and has commenced receiving funding under the ecoEnergy program of up to C$33.3 million in funding during its first ten years of operations based on C$10 per MWh of electricity generated by the Dokie Wind Farm and sold to BC Hydro.

Seasonally forecasted production is as follows:

January – March	28%
April – June	20%
July – September	22%
October – December	30%

DGP continues to work with its First Nations partners, the Halfway River, West Moberly and Saulteau First Nations and the McLeod Lake Indian Band during operations.

The Company accounts for its investment in DGP using the proportionate consolidation method of accounting whereby the Company records its 51% share of DGP assets, liabilities, revenues and expenses. From July 1, 2011, under IFRS, the Company will adopt equity accounting for its investment in DGP.

The obligations of DGP are non-recourse to the Company.

Dokie Wind Farm Expansion Project

The Company holds a 51% interest in a potential expansion of the Dokie Wind Farm ("Dokie Wind Farm Expansion Project") with a current projected capacity of 156 MW. GE EFS holds the remaining 49% interest. The Company and GE EFS are completing data collection for a resource assessment of the Dokie Wind Farm Expansion Project, which is scheduled to be completed mid-year 2012.

The Dokie Wind Farm Expansion Project has received a BC Provincial Environmental Assessment Certificate. Amendments to the certificate may be required depending on the results of the resource assessment.

Development Projects

ABW Solar, Ontario, Canada

In January 2011, Plutonic and GE EFS agreed to acquire a 50 MW portfolio of five photovoltaic solar facilities to be built in Ontario ("ABW Solar") by First Solar, Inc. which will also permit ABW Solar under the Ontario's Renewable Energy Approval process during 2011. First Solar, Inc. is expected to begin construction of ABW Solar within the next six months, with completion of construction in 2012.

Plutonic and GE EFS formed the ABW Solar General Partnership ("ABWSGP") to acquire and hold ABW Solar. Following the acquisition of Plutonic by the Company, the Company has the option to make an equity contribution of approximately C$6 million to earn a 10% interest in ABWSGP when it acquires ABW Solar, and would serve as the managing partner. ABW Solar will sell electricity to the Ontario Power Authority under a series of 20 year EPAs under Ontario's Renewable Energy Standard Offer Program (RESOP).

Upper Toba Valley Run-of-River Hydro Project, British Columbia, Canada

In 2010, Plutonic and GE EFS signed a 40 year EPA with BC Hydro for the Upper Toba Valley Project that includes two run of river projects with a combined expected annual average generation of 340,000 to 350,000 MWh of electricity. The Company holds a BC Provincial Environmental Assessment Certificate for the Upper Toba Valley Project. Following the acquisition of Plutonic by the Company, the Company and GE EFS are currently in the process of updating an assessment of the project.

A new transmission line was built to interconnect Toba Montrose to the BC Hydro substation at Saltery Bay, and subject to a priority use agreement with TMGP, the Company has the right to use the excess and unused capacity of the TMGP transmission line for the Upper Toba Valley Project.

The Company has Impact Benefit Agreements ("IBAs") with the Sliammon and Sechelt First Nations that cover approval for the Upper Toba Valley Project, and is in negotiations on an IBA with the Klahoose First Nation.

Exploration Projects

Since commencement of operations, the Company has acquired a portfolio of geothermal exploration properties from a variety of sources, including BLM lease auctions and sales in the USA, a purchase from the University of Chile, applications for new geothermal exploration authorizations from the Government of Peru and purchases from third party leaseholders and landowners. The Company also has a number of run of river exploration properties in BC, Canada, arising from its acquisition of

Plutonic in May 2011 and a number of geothermal properties in Iceland, arising from its acquisition of HS Orka in August 2010.

Iceland

The Company's exploration-stage properties in Iceland are Eldvörp, Krýsuvík and Trölladyngja.

The Eldvörp high-temperature geothermal field is located in the western part of the Reykjanes peninsula, approximately five to six kilometres ("km") southwest from Svartsengi and approximately 11 km northeast from the Reykjanes geothermal field.

The Krýsuvík high-temperature geothermal field is located in the Reykjanes peninsula and belongs to the Krýsuvík volcanic centre and the associated fissure swarm. It is considered to cover approximately 80 square kilometres.

The Trölladyngja geothermal field is a sub-field in the northern part of the Krýsuvík geothermal area. Several research and exploration studies have been conducted in the Trölladyngja field since the 1960s as part of the studies for the Krýsuvík geothermal area. These studies included detailed geological mapping, geophysical surveys and drilling of two exploration wells in 1971 and 1972 to depths of 843 and 931 metres, respectively.

USA

The Company's advanced-stage properties in the USA are McCoy and Desert Queen and the Company has also invested in a number of other early stage properties in the Nevada and Utah. The Company continues to evaluate the potential of all of its remaining exploration properties before commencing exploration programs on any of the properties. All of the currently planned exploration program expenditures are discretionary and there are no expenditure commitments on any of the Company's exploration stage properties in the USA.

Chile

In Chile the Company drilled three slim diameter holes on the Maule and Pellado concessions. The Company is currently refining plans for either large diameter development drilling and / or additional exploration slim holes (using rotary drilling techniques) and the Company may utilize a partner as it enters this next phase of exploration in late 2011 or 2012.

Preliminary exploration work was completed on the Los Cristales and Tres Puntas geothermal exploration leases. The Company was awarded these leases in November 2010.

The Los Cristales Property is a 68,000 hectare concession located in the Maule Region, 400 km south of Santiago and 50 km southeast of the Pehuenche hydroelectric power plant served by a 220 kV transmission line. The concession has good access via a paved road and other secondary roads. The property is located immediately south of the Pellado Exploration Concession granted to Magma Energy Chile in January 2010.

The Tres Puntas Property is a 90,000 hectare concession located in the Atacama Region, 800 km north of Santiago, 70 km east of the city of El Salvador and served by a 110 kV transmission line.

Italy

The Company was awarded the Mensano and Roccastrada geothermal leases in March 2011. These concessions are located near the historic Lardarello geothermal field that has been in production for nearly 100 years.

The Roccastrada concession covers 27,190 hectares. The area is characterized by the presence of high heat flow and hot springs that are the expression of a hydrothermal circulation similar to that of Monte Amiata located to the east.

The Mensano concession covers 21,265 hectares and it is located about 20 km northeast of the town of Larderello. The area is characterized by the presence of a large heat flow anomaly, numerous thermal springs and hydrothermal alteration areas, recent travertine deposits and significant uplift on a regional scale.

A detailed exploration program will be undertaken on both concessions to confirm the presence of high enthalpy resources and will include geological, geophysical and geochemical prospecting suitable to define the best location and targets of the exploration wells that will be drilled in the following phase of exploration.

Peru

The Company has been actively pursuing geothermal concessions in Peru since 2008.

In April 2011 the Company was awarded the Crucero and Loriscota concessions. The Crucero and Loriscota geothermal concession areas lie in southern Peru's prospective region of volcanoes and geothermal systems of significant size, 50 km northwest of the town of Candarave. Crucero and its adjacent lease, Loriscota, cover 37,400 hectares of land on a seven km long area of silica sinter and hot springs that follow extensional faults believed related to a strike-slip pull-apart basin. In Crucero, in particular, there are hot springs that approach boiling in places, widespread opaline silica sinters, and favorable liquid geochemistry associated with extensional faults. A transmission line lies 45 km to the northwest. There are several roads cutting through the area, one of which is the paved highway that connects the Peruvian Pacific coast with the town of Desaguadero on the border between Peru and Bolivia. Now that the concessions have been awarded, the Company is now working with the local communities and landowners to obtain access in preparation for further exploration in 2012.

In July 2011, the Company was awarded the Pasto concession, which covers 20,000 hectares and is adjacent to the Crucero concession.

British Columbia, Canada

Bute Inlet Project

Following the Plutonic acquisition in May 2011, the Company now holds 17 run of river hydro power projects in the Bute Inlet (the "Bute Inlet Project"). In 2008, Plutonic submitted its Bute Inlet Project into the Environmental Assessment Process. The Bute Inlet Project proposal submitted to the BC Environmental Assessment Office, the Canadian Environmental Assessment Agency and the Major Projects Management Office ("EAO") was for the construction of 17 run of river generating facilities, organized into three interconnected groups with an estimated potential annual generation of 2.9 million MWh.

Plutonic and GE EFS jointly submitted the Bute Inlet Project into a BC Hydro call for power; however in March 2010 Plutonic and GE EFS announced that negotiations with BC Hydro for an EPA on the Bute Inlet Project would not move ahead at that time in order to allow for further data collection, studies, due diligence and market assessment.

In July 2011, the Company signed an IBA with the Homalco First Nation to advance the hydroelectric opportunities of the Bute Inlet Project within the traditional territories of the Homalco First Nation.

Other Hydro Exploration Projects

The Company has 18 other run of river hydro power sites, with a combined potential average annual generation of approximately 2,300,000 MWh of electricity. These sites are located primarily in the southwestern region of BC. The Company continues to collect hydrological data, conduct engineering work and perform other required studies on these sites.

During 2010, the applications for a water licence and Crown Land tenure submitted by the Company were accepted by the Water Stewardship Division, Ministry of the Environment and the integrated Land Management Bureau, Ministry of Agriculture and Lands for a 1,000 MW pumped storage site in southwestern BC.

3. SELECTED ANNUAL INFORMATION

The following financial information has been prepared in accordance with Canadian GAAP and is reported in U.S. dollars.

(Expressed in thousands, except per share amounts)

Selected Financial Information

	For the Year Ended June 30, 2011	For the Year Ended June 30, 2010	For the Year Ended June 30, 2009
Total revenues	**70,832**	5,056	4,485
Loss for the period attributable to the Company	**(14,243)**	(16,446)	(4,460)
Loss per share attributable to the Company - basic and diluted	**(0.05)**	(0.07)	(0.03)
Total assets	**1,124,791**	198,703	43,780
Total current liabilities	**60,202**	5,128	2,600
Total long-term liabilities	**658,261**	51,505	1,982
Total equity	**406,328**	142,070	39,198

4. RESULTS OF OPERATIONS

Year ended June 30, 2011 compared to the year ended June 30, 2010

For the year ended June 30, 2011, the Company recorded a net loss of $14.2 million ($0.05 per common share), compared to a net loss of $16.4 million ($0.07 per common share) in fiscal 2010. The financial results for fiscal 2011 include the results of HS Orka since August 17, 2010, the date the Company acquired control, and the results of Plutonic (including the proportionate results from the Toba Montrose Facility and the Dokie Wind Farm) from May 13, 2011. Therefore, the results for fiscal 2011 are not comparable with prior periods.

Gross Profit from Operations

Gross profit from operations was $23.7 million for the year ended June 30, 2011 compared to $0.4 million in fiscal 2010.

Revenues

Revenue totaled $70.8 million for the year ended June 30, 2011 compared to $5.1 million in fiscal 2010. The 2011 results include revenue from the following operations:

i) Soda Lake operation - $5.3 million in fiscal 2011 (2010: $5.1 million).

ii) HS Orka operations - $57.5 million for the period from August 17, 2010 to June 30, 2011 (2010: nil). This amount includes $2.4 million of amortization of certain below market contracts recorded on the acquisition of HS Orka. Approximately 46% of HS Orka's revenues are sold under PPAs with prices indexed to the price of aluminum, resulting in higher revenues as aluminum prices increase. The average aluminum price for the twelve months ended June 30, 2011 was $2,531 per tonne according to the London Metal Exchange.

iii) Toba Montrose Facility - $6.4 million proportionate 40% share of revenue for the period from May 13 to June 30, 2011 (2010: nil).

iv) Dokie Wind Farm - $1.6 million proportionate 51% share of revenue for the period from May 13, to June 30, 2011 (2010: nil).

Management estimates that if the acquisitions of HS Orka and Plutonic had occurred on July 1, 2010 the entities would have contributed the following to consolidated revenue:

- HS Orka - $64.5 million
- Plutonic - $13.3 million

Costs of Production

Total cost of production for the year ended June 30, 2011 totalled $36.6 million excluding depreciation and amortization, compared to $3.0 million in fiscal 2010. This included costs for labour, repairs and maintenance, supplies, and all other operating costs, including plant general and administrative expenses.

i) Soda Lake accounted for $4.6 million in fiscal 2011 (2010: $3.4 million). Soda Lake's operational costs are $1.2 million higher than last year primarily due to non-recurring maintenance work completed in fiscal 2011.

ii) HS Orka accounted for $30.4 million of total production costs from August 17, 2010 to June 30, 2011 (2010: nil).

iii) Toba Montrose Facility accounted for $0.7 million proportionate share of production costs for the period from May 13 to June 30, 2011 (2010: nil).

iv) Dokie Wind Farm accounted for $0.9 million proportionate share of production costs for the period from May 13 to June 30, 2011 (2010: nil).

Depreciation and Amortization

Total depreciation and amortization for the year ended June 30, 2011 totalled $10.5 million, compared to $1.6 million in fiscal 2010, an increase of $9.3 million. HS Orka accounted for $9.1 million of the increase.

Expenses

Total operating expenses for the year ended June 30, 2011 was $19.3 million compared to $8.3 million in fiscal 2010.

General and administrative expenses were $11.0 million in fiscal 2011 compared to $4.9 million in fiscal 2010. This includes the costs of all administration and overhead necessary to operate offices in Canada, USA, Chile, Peru, Sweden and Iceland as well as the newly acquired HS Orka and Plutonic offices. The increase represents additional costs as the Company has grown over the last 12 months, in addition to the consolidation of HS Orka's general and administrative costs for the period from August 17, 2010 of $3.7 million. Also included in this amount is $0.7 million (2010: $0.7 million) in relation to stock-based compensation. Stock based compensation expense is recognized over the vesting period of options granted.

Professional fees were $5.4 million compared to $2.0 million in fiscal 2010. The increase is primarily due to non-recurring Norðurál arbitration costs at HS Orka and the merger with Plutonic.

General exploration was $1.5 million compared to $1.4 million in fiscal 2010. The level of exploration is consistent with the prior year as the Company continues to search for and evaluate prospective new project acquisitions and opportunities. Also included in this amount is $0.1 million (2010: $0.1 million) in relation to stock-based compensation.

Depreciation, accretion and amortization was $1.3 million compared to $0.04 million in fiscal 2010. $0.9 million relates to HS Orka.

Other Income and Expenses

Net other expenses for the year ended June 30, 2011 were $15.5 million compared to net other expenses of $8.5 million in fiscal 2010. The net $15.5 million of other income and expenses in the fiscal year is comprised primarily of:

- Equity income earned in the current period of $8.3 million compared to equity loss of $10.8 million in fiscal 2010. Equity income and losses are predominantly from the Company's equity investment in HS Orka prior to acquisition of control on August 17, 2010.

- Gain resulting from the change in the fair value of derivatives of $19.7 million (2010: nil). HS Orka has three PPAs under which the sales price of the power sold is partially based on the market price of aluminum. The indexing of the sales price to the price of aluminum gives rise to embedded derivatives which are fair valued at each reporting date. Due to the increase in aluminium forward prices since August 17, 2010, HS Orka recorded a gain of $19.7 million relating to the change in the fair value of the embedded derivatives.

- The long dated interest rate swap arrangement to hedge TMGP's floating rate loan interest payments resulted in minimal impact to the overall variance between the periods.

- Interest and other income earned in the current period of $1.8 million compared to $0.4 million in the same period prior year. $1.3 million relates to interest income of HS Orka.

- Foreign exchange gain of $1.3 million compared to a gain of $4.3 million in fiscal 2010.

These increases were partially offset by:

- Loss from the change in the fair value of embedded derivatives related to long term debt of $16.2 million. As partial consideration for its acquisition of shares of HS Orka, the Company has long term bond liabilities of $115.3 million. The bonds contain certain embedded derivatives and have therefore been accounted for as hybrid instruments designated as held-for-trading and are recorded at fair value at each balance sheet date with the change in the fair value recorded in the statement of operations.

- Interest and other financing costs of $16.1 million compared to $1.0 million in FYE 2010. This includes the interest on the long-term bond liability, the credit agreement, the debt assumed with the acquisition of HS Orka and the Company's proportionate share of the Toba Montrose and Dokie debts assumed on acquisition.

- Loss on the re-measurement of equity interest in HS Orka of $9.8 million. On acquisition of control of HS Orka on August 17, 2010 the pre-acquisition 46.18% equity interest was determined to have a fair value of $107.6 million, compared to its carrying value of $117.4 million under the equity method of accounting, resulting in a loss of $9.8 million.

- Geothermal development cost written-off of $4.3 million compared to a write-off of $0.9 million in FYE 2010.

5. SUMMARY OF QUARTERLY RESULTS

The Company accounted for its proportionate share of income from HS Orka using the equity method of accounting in the third and fourth quarter of fiscal 2010. With the further acquisition of another 38.03% of HS Orka during the three months ended September 30, 2010, the Company's results include the consolidation of HS Orka into its financial statements from August 17, 2010. The results for the three months ended June 30, 2011 include the results of Plutonic from May 13, 2011. Seasonality has an impact on operations; Soda Lake production levels are lower in the summer months due to hotter ambient temperatures in Nevada, HS Orka has a lower demand in the summer months in Iceland, Toba Montrose production levels are higher in the summer months due to spring freshet and glacier melt, and Dokie production levels are higher in the winter months. Therefore, comparisons of revenues and expenses between the last eight quarters vary significantly due to the timing and nature of the Company's activities from quarter to quarter.

The following table summarizes information regarding the Company's operations on a quarterly basis for the last eight quarters. The following financial information has been prepared in accordance with Canadian GAAP and is reported in US dollars expressed in thousands, except for share amounts. The comparative quarters March 31, 2011, December 31, 2010 and September 30, 2010 have been adjusted to reflect the final purchase price adjustments on the acquisition of HS Orka.

Three months ended:	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010
Revenue	25,406	18,485	18,559	8,382
Gross profit	10,609	5,917	5,406	1,761
Other income (expenses)	(36,956)	8,237	(12,229)	6,071
Taxes (expense)	3,125	(4,859)	(1,358)	(2,865)
Net income (loss) attributable to the Company	(20,654)	9,025	(7,267)	4,653
Earnings (loss) per share attributable to the Company (basic and diluted)	(0.07)	0.03	(0.02)	0.02
Three months ended:	**June 30, 2010**	**March 31, 2010**	**December 31, 2009**	**September 30, 2009**
Revenue	1,347	1,295	1,409	1,005
Gross profit	(6)	148	337	(57)
Other income (expenses)	(8,256)	(704)	(5,300)	(2,609)
Taxes (expense)	(412)	698	(286)	-
Net income (loss) attributable to the Company	(8,674)	142	(5,249)	(2,666)
Loss per share atributable to the Company (basic and diluted)	(0.04)	-	(0.02)	(0.01)

Fourth Quarter 2011

For the quarter ended June 30, 2011, the Company recorded a net loss of $20.7 million ($0.07 per common share), compared to a net loss of $8.7 million ($0.04 per common share) in the same period in 2010. The financial results for the fourth quarter in 2011 include the consolidation of the results of HS Orka and Plutonic and its related entities. Therefore, the results for this quarter are not comparable with prior periods.

Gross Profit from Operations

Total gross profit from operations was $10.6 million for the quarter ended June 30, 2011 compared to $nil in the same period in 2010.

Revenues

Revenues from energy sales totaled $25.4 million for the quarter ended June 30, 2011 compared to $1.3 million in the same period in 2010. The increase of $24.1 million is due to the inclusion of the results of HS Orka and the Company's proportionate share of TMGP and DGP (see above for details of amounts contributed for the period from May 13, 2011).

The Soda Lake operation contributed revenues of $1.2 million in the quarter ended June 30, 2011 (2010: $1.3 million).

HS Orka contributed $16.2 million of revenues in the quarter ended June 30, (2010: nil). This amount includes $0.7 million of amortization of the below market contracts recorded on the acquisition of HS Orka. HS Orka's revenues of $15.5 million, excluding the amortization of the below market contracts, are consistent with the third quarter revenue of this fiscal year of $16.0 million.

Costs of Production

Total costs of production for the quarter ended June 30, 2011 totalled $14.8 million compared to $1.3 million in the same period in 2010.

The Soda Lake operation accounted for $1.8 million of total production costs in the quarter ended June 30, 2011 (2010: $1.2 million)

HS Orka accounted for $11.4 million of total production costs in the quarter ended June 30, 2011 (2010: nil). $2.9 million included relates to depreciation, of which $1.0 million relates to the amortization of the fair value adjustments recorded on the acquisition of HS Orka.

Toba Montrose Facility accounted for $0.7 million of total production costs in the quarter ended June 30, 2011 which represents the Company's proportionate share (2010: nil).

Dokie Wind Farm accounted for $0.9 million of total production costs in the quarter ended June 30, 2011 which represents the Company's proportionate share (2010: nil).

Operating Expenses

Total expenses for the quarter ended June 30, 2011 are $8.9 million compared to $3.4 million in the same period in 2010. The increase of $5.5 million resulted from the expansion of the Company in 2011 to include the results of HS Orka and Plutonic.

Other Income and Expenses

Net other expenses for the quarter ended June 30, 2011 is $28.1 million compared to net other expense of $4.9 million in the same period in 2010. The $23.2 million increase of net other expenses from the comparative quarter is comprised primarily of:

- Interest and other financing costs of $6.8 million
- Fair value of embedded derivatives asset reduction of $13.0 million
- Geothermal development costs written off of $4.1 million
- Foreign exchange loss of $5.1 million

These increases were partially offset by:

- Interest and income of $0.4 million
- Equity income of $0.5 million

6. LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2011, the Company (excluding HS Orka and the Company's proportionate share of TMGP and DGP) had cash and cash equivalents of $56.5 million (June 30, 2010: $25.3 million), HS Orka's cash was $11.8 million (June 30, 2010: nil), the Company's proportionate share of TMGP's cash was $4.5 million (June 30, 2010: nil), and the proportionate share of DGP's cash was $0.9 million (June 30, 2010: nil), for a consolidated total of $73.7 million (June 30, 2010: $25.3 million).

The increase in cash and cash equivalents was due primarily to the consolidation of HS Orka into the financial statements beginning August 17, 2010, together with the cash proceeds from the sale of 25% of HS Orka on June 1, 2011. Cash and cash equivalents consist of cash and term deposits that are redeemable prior to maturity on demand and without economic penalty to the Company. The Company's exposure to credit risk on its cash and term deposits is limited by maintaining the majority of its cash and term deposits with a major Canadian bank and Icelandic bank that have a high-credit quality. A minimal amount of cash is held by banks in the countries, other than Iceland, in which the Company's subsidiaries operate to fund their immediate needs.

At June 30, 2011, the Company had restricted cash of $6.8 million (June 30, 2010: nil) representing the Company's proportionate interest in DGP's restricted cash balance of $2.3 million (June 30, 2010: nil) together with $4.5 million restricted cash for HS Orka, restricted cash balance are required as per loan agreements.

Working capital is defined as current assets minus current liabilities. Working capital calculations or changes are not measures of financial performance, nor do they have standardized meanings, under Canadian GAAP. Readers are cautioned that this calculation may differ among companies and analysts and therefore may not be directly comparable.

The Company ended the year with consolidated working capital of $47.5 million compared to $21.4 million at June 30, 2010, an increase of $26.1 million. The increase was due primarily to the inclusion of the HS Orka balances and Plutonic at June 30, 2011.

Long-term debt consists primarily of bonds and other long-term debt assumed with the acquisitions of HS Orka and Plutonic, in addition to $22.8 million relating to the credit agreement with the Company's Chairman. The principal amounts of the bonds and other long-term debt have maturity dates that range from 2016 to 2045.

Liquidity Table

	Total	Less than 1 year	1 - 3 years	4 -5 years	After 5 years
Long term debt and capital lease obligations	$ 1,085,833	$ 78,251 *	$ 111,820	$ 108,016	$ 787,746
Operating leases	43,586	4,555	8,354	8,213	22,464
Total contractual obligations	$ 1,129,419	$ 82,806	$ 120,174	$ 116,229	$ 810,210

* Includes amounts paid subsequent to June 30, 2011 to settle the related party credit agreement

Management is of the opinion that the Company has sufficient working capital to meet its administrative overhead for the ensuing year. The Company intends to fund its planned expansion, exploration and development activities on its properties, from working capital, project financing and distributions from existing operations.

The Company's subsidiaries, HS Orka, TMGP and DGP are subject to financial covenants regarding their respective loan agreements.

The Company's subsidiary HS Orka hf ("HS Orka) has obtained a waiver in respect of one of its bank covenant requirements within one of its loan agreements. This loan payable has a principal amount of $43.8 million and a carrying value of $42.3 at June 30, 2011. The waiver has been obtained for the six month period ending December 31, 2011. It is not possible to determine with certainty whether the covenant will be met for the subsequent period to July 1, 2012, as the forecasted amounts used in the projected covenant calculations are sensitive to the future price of aluminum. If the covenant is not met subsequent to December 31, 2011, the lender would be able to demand payment of the principal amount. This loan has been classified as non-current at June 30, 2011, as HS Orka has a waiver as at this date.

In addition, uncertainty exists in relation to the calculation of one of HS Orka's debt covenants in loan agreements having a principal amount of $91.9 million and a carrying value of $84.2 million as at June 30, 2011. These amounts are inclusive of the loan amounts in the previous paragraph. The uncertainty relates to the interpretation of indexation of principal within the calculation of interest expense in the covenant. Management has interpreted the agreement such that indexation is not included within the calculation, and therefore believes HS Orka complies with the covenant in its loan agreement. Accordingly, the loans payable have been classified as non-current at June 30, 2011. If indexation was included within the calculation, HS Orka would not be in compliance with the covenant. The Company is in discussions with lenders regarding this debt covenant

7. TRANSACTIONS WITH RELATED PARTIES

During fiscal 2011 the Company increased its credit facility with the Chairman to C$30 million. At June 30, 2011 the amount drawn down on the credit facility was C$22 million, incurring interest at 8%. In July 2011 the balance was repaid in full. Concurrently the Company entered in to a new revolving credit facility to have the option to draw up to C$20 million. The Company has drawn down C$4 million of the facility to date. During the year ended June 30, 2011 interest, standby and drawdown fees totalling $1.8 million were paid (2010 - $nil).

During the 2011 fiscal year and subsequent to the business combination with Plutonic, a director of the Company received 100,000 common shares, C$100,000 and a grant of 150,000 options under the Company's Incentive Stock Option and Stock Bonus Plan as consideration for the termination of his employment agreement with Plutonic.

8. OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

9. MANAGEMENT OF FINANCIAL RISKS

The carrying value of the Company's financial instruments as at June 30, 2011 approximates fair value, except as follows:

	2011	
	Carrying value	**Fair value**
TMGP loans	195,365	196,919
DGP loan	96,984	97,802
HS Orka loans	175,499	179,252

CICA Handbook Section 3862 establishes a three-tier fair value hierarchy, which prioritizes the inputs in measuring fair value of financial instruments.

(1) Level 1: quoted prices (unadjusted) in active markets or identical assets or liabilities;

(2) Level 2: valuation techniques using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

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

	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	**$ 73,690**	$ 73,690	$ -	$ -
Restricted cash	**6,796**	6,796	-	-
Embedded derivatives	**19,413**	-	1,112	18,301
Bonds receivable	**4,621**	-	-	4,621
Investment in associates	**237**	-	-	237
	104,757	80,486	1,112	23,159
Liabilities:				
Currency and interest rate swaps	**26,245**	-	26,245	-
Bonds payable	**115,324**	-	115,324	-
	$ 141,569	**$ -**	**$ 141,569**	**$ -**

The types of financial risk exposure and the way in which such exposure is managed by the Company are as follows:

Credit Risk

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Over 65% of the Company's revenue is attributable to sales transactions with four customers. The Company has set a credit policy where all new customers are evaluated. Payment history of new customers is checked and credit limits are set. The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

Liquidity Risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they become due. The Company manages liquidity risk by ensuring that it has sufficient cash, credit facilities and other financial resources available to meet its obligations. The Company forecasts cash flows for a period of 12 months to identify financial requirements. These requirements are met through a combination of cash flows from operations, credit facilities and accessing capital markets.

At June 30, 2011 and 2010, the Company's current liabilities consisted of trade and other payables and current portions of debt and other financial instruments. The Company's cash and cash equivalents of $73.7 million at June 30, 2011 ($25.3 million at June 30, 2010) together with projected project cash flow over the next 12 months is more than sufficient to pay these current liabilities.

The Company's long-term liabilities, including its debts, capital lease obligations and currency and interest rate swaps, are all predominately held within TMGP, DGP, and HS Orka. Both partnerships and HS Orka have the ability to sustain themselves and pay their long-term interest, debt and interest-rate swap settlement obligations (as applicable) as they become due.

The long term bond liabilities assumed on acquisition of HS Orka may be funded from a combination of cash flows from operations and accessing capital markets.

Market Risk

The significant market risk exposures to which the Company is exposed are interest rate risk, currency risk and commodity price risk.

a) Interest Rate Risk

Interest rate risk is the risk that the future cash flows and fair values of the Company's investments and debts will fluctuate because of changes in market interest rates. Generally, the Company's interest income will be reduced during sustained periods of lower interest rates as higher yielding cash equivalents and short-term investments mature and the proceeds are invested at lower interest rates.

b) Currency Risk

The functional currency of the Company and its subsidiaries, except HS Orka, is the Canadian dollar. The carrying amounts of monetary assets and liabilities denominated in currencies other than the Canadian dollar are subject to fluctuations in the underlying foreign currency exchange rates. Gains and losses on such items are included as a component of net loss for the year.

The functional currency of HS Orka is ISK and, therefore, HS Orka is exposed to currency risk on its sales, purchases and borrowings that are denominated in currencies other than ISK. The currencies in which these transactions are primarily denominated are the U.S. dollar, Swiss franc, Euro and Japanese yen. HS Orka does not in general hedge against foreign exchange rate risk, but may hedge single, large transactions with forward foreign exchange agreements for shorter periods. HS Orka does not hedge its currency risk on its long-term debt denominated in foreign currencies.

The reporting currency selected for the presentation of these consolidated financial statements is the U.S. dollar. For presentation purposes, all assets and liabilities are translated into U.S. dollars at the exchange rate in effect at the balance sheet date. As a result, reported amounts of all assets and liabilities will fluctuate with changes in the underlying Canadian dollar – U.S. dollar exchange rate.

Gains and losses arising upon translation into U.S. dollars are reported as a component of accumulated other comprehensive income or loss.

c) Commodity Price Risk

The Company is exposed to electricity and aluminum price risk. At the Company's Soda Lake facility, all power currently produced is sold to one customer under the terms of a 30-year PPA which consists of a fixed price component and an escalating price component. Because all power produced will be sold at rates specified by the PPA until 2020, revenue from the Soda Lake facility is not exposed to significant commodity price risk.

HS Orka has entered into PPAs for the sale of electrical power whereby the sales price of the power is partially based on the market price of aluminum. Therefore, its revenues and profitability of its operations are significantly exposed to fluctuations in the price of aluminum.

Bonds issued as partial consideration for the purchase of HS Orka are subject to adjustments based on the price of aluminum. Therefore, the principal amounts owed on the due date, and the annual interest payments thereon, will fluctuate with the price of aluminum.

10. CRITICAL ACCOUNTING POLICIES AND MANAGEMENT ESTIMATES

The Company believes the following selected accounting policies and issues are critical to understanding the estimates, assumptions and uncertainties that affect the amounts reported and disclosed in the Company's consolidated financial statements and related notes. See note 2 of the Company's 2011 consolidated financial statements for the Company's significant accounting policies.

Business Combinations

CICA Handbook Sections 1582, "Business Combinations", 1601, "Consolidated Financial Statements", and 1602 "Non-Controlling Interests", replace CICA Handbook Sections 1581 and 1600. The new standards revise guidance on the determination of the carrying amount of assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination. These standards are effective for any business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with early adoption permitted. The Company elected to adopt these standards early effective July 1, 2010.

Acquisitions of subsidiaries and businesses (other than entities which were under the control of the parent) are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair value (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. The acquiree's identifiable assets and liabilities that meet the conditions for recognition under Section 1582 are recognized at their fair value at the acquisition date except for certain assets and liabilities which are recognized and measured in accordance with the related handbook section.

Goodwill arising on acquisition is recognized as an asset and is measured as the fair value of consideration transferred including the recognized amount of any non-controlling interest in the acquiree less the net fair value of the identifiable assets and liabilities recognized. If, after reassessment, the Company's interest in the net fair value of the acquiree's identifiable assets and liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss as a bargain purchase.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

i) Acquisitions of non-controlling interests

Under Section 1602 "Non-controlling Interest", transactions that result in changes in ownership interests while retaining control are accounted for as transactions with equity holders in their capacity as equity holders. As a result no gain or loss on such changes is recognized, and no change in the carrying amounts of assets (including goodwill) or liabilities is recognized.

ii) Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

iii) Investments in associates (equity accounted investees)

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method (equity accounted investees) and are recognized initially at cost. The Company's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Company's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

iv) Jointly controlled entities

Joint ventures are those entities over whose activities the Company has joint control, established by contractual agreement. The consolidated financial statements include the Company's proportionate share of the entities' assets, liabilities, revenue and expenses with items of a similar nature on a line-by-line basis, from the date that joint control commences until the date that joint control ceases.

v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Plant and equipment

Operating assets are stated at cost, net of accumulated amortization and accumulated impairment losses. As at June 30, 2011, the net book value of the Company's plant and equipment was $606 million. Costs include expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use and capitalized borrowing costs. The major categories include power plants, boreholes, electrical systems, hot water and cold water distribution systems, transmission lines, housing and other operating assets. Major additions to operating assets, including betterments, are capitalized and repairs and maintenance are expensed.

Depreciation is provided on a straight-line basis over the estimated useful lives of plant assets. HS Orka's facility components have estimated useful lives that range from 5 to 50 years, Soda Lake's facility components range from 2 to 20 years, and the Toba Montrose facility components range from 2 to 70 years.

Amortization is provided on a declining balance method for all other fixed assets with annual rates ranging from 20% to 30%.

Derivative financial instruments, including hedge accounting

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

On initial designation of the hedge, the Company formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80% to 125%. For a cash flow hedge of a forecast transaction, the transaction should be probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in unrealized gains/losses on cash flow hedges in equity. The amount recognized in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of operations as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income and presented in unrealized gains/losses on cash flow hedges in equity remains there until the forecast transaction affects profit or loss. When the hedged item is a non-financial asset, the amount recognized in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognized. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss. In other cases the amount recognized in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

TMGP has designated its interest rate swap as a cash flow hedge of its variable rate debt.

Separable embedded derivatives

Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

Intangible assets

Research and development – Hydro, wind and geothermal development costs

Expenditures on research activities, undertaken with the prospect of surveying areas where exploitation probability is uncertain, and in order to gain new scientific or technical knowledge, is recognized in profit or loss when incurred.

Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset.

The Company capitalizes direct costs associated with its hydro and wind development projects. Costs associated with successful projects are amortized over the useful life of the projects upon commencement of commercial production. Costs of unsuccessful projects are written-off in the period the project is abandoned or when recovery of such costs can no longer be reasonably regarded as assured.

The recovery of hydro and wind development costs is dependent upon the successful completion of the projects or the sale of projects to third parties. The successful completion of the project is typically dependent upon receiving the necessary environmental and other licenses, being awarded a purchase agreement, obtaining the necessary project financing to successfully complete the development and construction of the project, and the long-term generation and sale of electricity on a profitable basis.

The Company capitalizes all costs related to investments in geothermal property interests on a property by property basis. Such costs include acquisition costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of the resources has been determined and geothermal property interests are either developed, the property sold or the rights are allowed to lapse. Costs that are incurred but not for a specific identifiable property are classified as general and are expensed in the period incurred.

Capitalized costs are reviewed, on a property by property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount estimated by quantifiable evidence of an economic resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the property for an amount less than the deferred costs, the property is written down to its fair value to recognize the impairment.

From time to time the Company may acquire or dispose of a wind or geothermal property interest pursuant to the terms of an option agreement. Where the options are exercisable entirely at the discretion of the Company or the optionee, the amounts payable or receivable are recorded as property costs or recoveries when the payments are made or received.

Capitalized costs are depleted over the useful lives of the properties upon commencement of commercial production or written-off if the properties are abandoned or the concessions are allowed to lapse.

Although the Company has taken steps to verify the title to geothermal properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

Income taxes

Income tax expense is comprised of current and future tax. Current tax and future tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Future income tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Future tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Future tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

A future tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Future tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Foreign currency translation

The functional currency of the Company and each of its subsidiaries, except HS Orka, is the Canadian dollar. As the operations of the foreign subsidiaries, other than HS Orka, are regarded as being integrated with the parent company, the temporal method of translation has been applied. Under this method, monetary assets and liabilities are translated into Canadian dollars at the exchange rate in effect on the balance sheet date while non-monetary assets and liabilities, revenues and expenses are translated using exchange rates in effect at the time of each transaction. Gains and losses from these translations are included in the results from operations.

The functional currency of HS Orka is ISK and HS Orka is regarded as being self-sustaining. As a result, the current rate method of translation has been applied. Under this method, assets and liabilities are translated into Canadian dollars at the exchange rate in effect on the balance sheet date, revenues and expenses are translated using exchange rates in effect at the time of each transaction. Gains and losses from these translations are recognized in other comprehensive income (loss).

The reporting currency selected for the presentation of these consolidated financial statements is the U.S. dollar. For presentation purposes, consolidated assets and liabilities are translated into U.S. dollars at the exchange rate in effect at the balance sheet date. Consolidated revenues and expenses are translated into U.S. dollars at rates in effect at the time of the underlying transactions. Gains and losses arising from translation of the consolidated financial statements into U.S. dollars are recognized in other comprehensive income (loss).

Lessor accounting

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Company the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values.

Agreements which transfer to counterparties substantially all the risks and rewards of ownership of assets, but not necessarily legal title, are classified as capital leases. When the Company is a lessor under capital leases the amounts due under the leases, after deduction of unearned finance income, are included in lease receivable (in the Consolidated Balance Sheets). As at June 30, 2011, the lease receivable was $112 million. The finance income receivable is recognized in finance income (in the Consolidated Statements of Operations) over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

Contingent rent is recognized in the period received and included in energy sales in the Statements of Operations.

DGP's 25 year EPA with BC Hydro has been determined to be a capital lease. Therefore, lessor accounting has been applied to this contract.

11. FUTURE ACCOUNTING STANDARDS

<u>International Financial Reporting Standards</u>

In February 2008 the Canadian Accounting Standards Board confirmed the use of IFRS to commence in 2011 for publicly-listed companies. IFRS will replace Canadian GAAP and the official changeover date is for interim and annual financial statements relating to fiscal periods beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for each quarter in the year ended December 31, 2010. Accordingly, the Company's first interim consolidated financial statements will be presented in accordance with IFRS for the three months ending September 30, 2011 with 2010 comparative results.

The following table provides a summary of the Company's changeover plan, the key activities involved, and the current status of these tasks:

Key Activities	Current Status
Financial Reporting • Analyze and select accounting policies where alternatives are permitted, including IFRS 1 elections • Quantify key differences for opening balance sheet • Prepare IFRS consolidated financial statements, including IFRS 1 reconciliations • Quantify key differences for 2010 quarterly comparatives	• The Company has completed selection of accounting policies and IFRS 1 elections. • Quantification of key differences for opening balance sheet is in the process of being finalised (see below) • Draft consolidated financial statement disclosures are in progress • IFRS 1 reconciliations are in progress • Quantification of key differences for comparatives is in progress.
Training • Provide technical training to key accounting personnel and management	• Training program complete including Audit Committee members, and sufficient internal

	expertise available • Specific training has been provided on an as-needed basis during the second half of 2011 and thereafter.
Control Environment • Maintain effective controls throughout the IFRS conversion process • Revise control environment for changes in processes and controls as a result of transition to IFRS	• Controls have been maintained through the conversion process • Assessment of controls surrounding IFRS conversion process is underway and being documented
Financial Information Systems • Determine and implement solution for capturing IFRS information throughout 2010 while still reporting in Canadian GAAP (for comparative period) • Identify impact on financial systems and changes required	• IFRS information will be maintained on spreadsheets through 2011 for opening balances and comparatives • No additional system requirements needed at current time

The Company has identified four phases to its IFRS conversion: scoping and planning, detailed assessment, implementation and post implementation. The scoping and planning phase involves establishing a project team and organizational structure, including oversight of the process. This phase also entails an initial assessment of the key areas where IFRS transition may have a significant impact and present significant challenges. The Company has completed its scoping and planning phase. The second phase, detailed assessment, involves in-depth technical analysis that will result in understanding potential impacts, decisions on accounting policy choices and the drafting of accounting policies. The Company has commenced this detailed technical analysis. During the implementation phase, the Company will identify and carry out the implementation requirements to effect management's accounting choices, develop sample financial statements, implement business and internal control requirements, calculate the opening balance sheet at July 1, 2010 and other transitional reconciliations and disclosure requirements. The last phase of post implementation will involve continuous monitoring of changes in IFRS throughout the implementation process (through to 2012).

The Company has identified key areas where changes in accounting policy are required on its transition from Canadian GAAP to IFRS listed below. This list is intended to highlight the areas that it has determined to be the most significant that will result from the transition to IFRS. Where possible the Company has quantified the impact of these changes on its Consolidated Statement of Operations, Balance Sheet and Cash Flow Statement.

IFRS 1 – First-time Adoption of IFRS

IFRS 1, "First time adoption of International Financial Reporting Standards", generally requires that all IFRS standards and interpretations be accounted for on a retrospective basis. IFRS 1 provides for certain optional exemptions and other mandatory exceptions to this general principle. The most significant IFRS optional exemptions which the Company expects to apply are:

Accounting Policy	IFRS 1 Exemption
IFRS 2, Share-based Payment Transactions	Full retrospective application is avoided for certain share-based payment transactions depending on the grant date, vesting terms and settlement of any related liabilities.

IFRS 3, Business Combinations	This allows an entity that has conducted prior business combinations to apply IFRS 3 on a prospective basis from the date of transition. This avoids the requirement to restate prior business combinations.
IFRIC 4, Leases	The Company may determine whether an arrangement existing at the date of transition to IFRSs contains a lease on the basis of facts and circumstances existing at that date rather than at the inception of the arrangement.

The Company has identified the following areas as having significant accounting policy changes and impact on the Company's consolidated financial statements and disclosures when IFRS is adopted:

i) Investments in joint ventures

International Accounting Standard ("IAS") 31 – Investments in Joint Ventures currently in effect, provides companies with a choice of equity accounting or proportionate consolidation for joint venture arrangements such as TMGP and DGP. On May 12, 2011, the International Accounting Standards Board ("IASB"), announced that commencing January 1, 2013, IAS 31 will be superseded by IFRS 11 - Joint Arrangements, in which proportionate consolidation will no longer be permitted.

In preparation for this change in accounting standards and in accordance with IAS 31, the Company expects to change its method of accounting for its investments in TMGP and DGP from proportionate consolidation to the equity method under IFRS.

ii) Financial instruments

IAS 39 – Financial Instruments will be applied prospectively in the opening IFRS statement of financial position as this is required under IFRS 1 as a mandatory exemption. The cash flow hedge currently held by TMGP is tested for effectiveness on a quarterly basis. Under Canadian GAAP, the hedge effectiveness testing and measurement of ineffectiveness excludes the credit risk of the party or counter-party (depending on whether the hedge is in an asset or a liability position). Under IAS 39, the hedge effectiveness testing and measurement of ineffectiveness will include the credit risk of the party or counterparty. This may result in the hedge becoming ineffective or a change to the amount of the hedge that is effective and ineffective. The Company has put in place the appropriate IAS 39 compliant hedging documentation beginning May 13, 2011 (date of acquisition) and believes the hedge remained effective on May 13, 2011 and June 30, 2011 under IFRS.

iii) Accounting for service concession arrangements

IFRS Interpretations Committee ("IFRIC") 12 – Service Concession Arrangements: The standard applies to a situation whereby a private sector entity constructs and / or operates an infrastructure used to provide public services.

The Company has completed its assessment of IFRIC 12 and has concluded that the DGP EPA with BC Hydro is considered a service concession arrangement. The Company is in the process of finalizing the impact of this change on its consolidated financial statements under IFRS.

iv) Effect of changes in exchange rates of foreign currencies

IAS 21 – Effect of Changes in Exchange Rates of Foreign Currencies requires the functional currency of an entity to be assessed using criteria that is slightly different from those criteria under Canadian GAAP. The Company is in the process of assessing the functional currency for each subsidiary and the impact on its consolidated financial statements under IFRS.

v) Employee benefits

IAS 19 – Employee Benefits requires the pension arrangements in HS Orka be accounted for as a defined benefit plan. The HS Orka pension is considered a multi-employer plan and therefore under Canadian GAAP is treated as a defined contribution plan. IFRS does not make this distinction for multi-employer plans and therefore the Company will commence recognizing the pension arrangement upon adoption of IFRS.

12. MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

In compliance with the requirements of National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, the Certifying Officers have reviewed and certified the Consolidated Financial Statements for the year ended June 30, 2011, together with other financial information included in the Company's annual securities filings. The Certifying Officers have also certified that disclosure controls and procedures have been designed to provide reasonable assurance that material information relating to the Company is made known within the Company and that they operated effectively during the year.

13. CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the Company's internal controls over financial reporting during the year ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting, except for newly implemented controls in respect of subsidiaries acquired during the year, namely Plutonic and HS Orka. Management will continue to update controls as necessary as the Company continues to grow and on full adoption of IFRS. Future changes to internal controls over financial reporting may be deemed to be a material modification (either individually or when considered collectively) and therefore any material changes to internal controls over financial reporting will be disclosed as they occur.

Limitations of Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgements in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

14. MANAGEMENT UPDATE

In September 2011, the Company appointed John Carson as Chief Executive Officer of the Company in order to enhance the Company's financial and administrative management and to effect a split of the roles of Chairman and Chief Executive Officer, both of which had been held by Ross Beaty, who will remain Executive Chairman. Mr. Carson has been Executive Vice President of the Company since early this year when he joined the Company's predecessor company, Magma Energy, after many years in senior financial management roles with large US-based renewable energy companies.

15. DISCLOSURE OF OUTSTANDING SHARE DATA

As at September 16, 2011, the Company had the following common shares, stock options and warrants outstanding:

Common shares	465,116,280
Stock options (vested and unvested)	14,172,665
Warrants	-
Fully diluted common shares outstanding	479,288,945