



THREE MONTHS ENDED SEPTEMBER 30, 2011

Management's Discussion & Analysis

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INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") is intended to supplement the unaudited interim condensed consolidated financial statements of Alterra Power Corp. (the "Company", formerly Magma Energy Corp.) for the three months ended September 30, 2011 (the "current quarter") and the related notes thereto, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company adopted IFRS on July 1, 2011, transitioning from Canadian GAAP, with a transition date of July 1, 2010. In note 21 in the unaudited interim condensed consolidated financial statements, the Company has provided a reconciliation of the previously disclosed comparative periods' consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") to IFRS. Material changes under IFRS include the accounting for our interest in Toba Montrose General Partnership and our interest in Dokie General Partnership which are now equity accounted. Previously, under Canadian GAAP, the Company had proportionately consolidated its interest in these two partnerships. Additionally, in accordance with Canadian GAAP, HS Orka hf's multi-employer defined benefit pension arrangements had been accounted for as defined contribution plans. As such, the HS Orka hf pension liability was not recorded on the balance sheet of the Company under Canadian GAAP. Under IFRS, the pension arrangements are accounted for as defined benefit plans, with the Company's portion of the pension liability now recorded on the balance sheet of the Company. Comparative numbers at July 1, 2010, September 30, 2010 and June 30, 2011 have been restated to reflect the change in accounting standards.

This MD&A has been prepared as of November 14, 2011 and it should be read in conjunction with the audited consolidated financial statements of the Company for the year ended June 30, 2011 prepared in accordance with Canadian GAAP, the related MD&A, and the most recent Annual Information Form on file with Canadian provincial securities regulatory authorities, with reference to the reconciliation referred to above. All figures are expressed in U.S. dollars except where otherwise indicated.

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 the Province of Quebec, and its common shares trade on the Toronto Stock Exchange under the symbol AXV.

The Company has changed 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 currently 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 FOR THE QUARTER

- The Company's generation assets performed at 105% of budgeted projections, as follows:

Facility	Type	Generation (MWh)	Generation		% of Budget
			Attributable to the Company (MWh)		
Toba Montrose	Run of River Hydro	406,149	162,460		104%
Dokie	Wind	91,791	46,813		128%
Reykjanes	Geothermal	170,431	127,823		101%
Svartsengi	Geothermal	119,864	89,898		105%
Soda Lake	Geothermal	14,415	14,415		87%
TOTAL		802,650	441,409		105%

- The Company split the roles of Chairman and CEO, and appointed John Carson as its Chief Executive Officer; Ross Beaty, who had previously held both positions, remains Executive Chairman.
- Following a successful first year of commissioning and operations, the Toba Montrose General Partnership, in which the Company owns a 40% partnership interest, exercised a one-time right in its energy purchase agreement with British Columbia Hydro and Power Authority ("BC Hydro") to increase its firm energy allotment by 10%, which is expected to result in a 2.4% increase to annual net revenue.
- 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 and the Homalco First Nation signed an Impact Benefit Agreement ("IBA") with the Homalco First Nation that establishes a framework to advance possible hydroelectric opportunities, including the Bute Inlet projects, within the traditional territory of the Homalco First Nation.
- The Company was awarded two geothermal exploration concessions in the Upper Lillooet area, in BC, Canada, covering 4,942 hectares.
- The Company was awarded several geothermal exploration concessions in Peru in addition to its two existing geothermal exploration concessions:
 - The Pasto concession, which covers 20,000 hectares and is adjacent to the Crucero concession. This and the adjoining concessions are underlain by young volcanic rocks with numerous hot springs and other promising indicators of large geothermal systems.
 - The Panejo concession, which covers 20,000 hectares and is adjacent to the Crucero concession on its northwestern boundary. The award of the Panejo concession completes

most of the Crucero trend concessions, with just one remaining to be awarded at the southeast end of the trend.

- The Atarani concession, which covers 19,900 hectares, and is the first of several concessions that are expected to be awarded forming a block of concessions covering the active volcanoes of the Yucamane trend.
- The Sara Sara concession, also part of the Yucamane trend, which covers 20,000 hectares, and includes the northernmost volcano in the trend.

1. OVERVIEW

Summary

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:

	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
Annual forecast electricity generation	798,000 MWh	460,000 MWh	84,000 MWh	727,000 MWh	330,000 MWh
Electricity generation for FYE 2011	796,182 MWh	448,710 MWh	72,784 MWh	215,248 MWh ⁽¹⁾	75,629 MWh ⁽²⁾
Electricity generation in Q1 – Sept 30, 2011	170,431 MWh	119,864 MWh	14,415 MWh	406,149 MWh	91,791 MWh
% included in consolidated financial statements	100%	100%	100%	40%	51%

(1) Toba Montrose Facility commenced commercial operations on November 1, 2010. Only the results from May 13, 2011 to June 30, 2011 were included in the Company's FYE June 30, 2011.

(2) Dokie Wind Farm commenced commercial operations on February 17, 2011. Only the results from May 13, 2011 to June 30, 2011 were included in the Company's FYE June 30, 2011.

The Company also owns a number of development and exploration assets as more thoroughly described below.

2. PROJECT UPDATES AND OUTLOOK

Operating Plants and Expansion Projects

Iceland

The Company, through HS Orka hf (“HS Orka”) produces and sells electricity from two geothermal operating plants located in the Reykjanes peninsula of Iceland (Reykjanes and Svartsengi). Both plants are connected to the Icelandic transmission grid with a 132 kilovolt (“kV”) transmission line. The Reykjanes plant has 100 MW of generation capacity and generates a projected 798,000 MWh of electricity annually, and the Svartsengi plant has 75 MW of generation capacity and generates a projected 460,000 MWh of electricity and 150 thermal MW of hot water for district heating annually. The Company sells to a number of commercial and retail customers including power sold under two power purchase agreements (“PPAs”): one with Landsvirkjun that terminates at the end of 2019 and one with Norðurál Helguvík sf. (“Norðurál”), an operator of aluminum smelters in Iceland, which terminates in June 2026. A third PPA with Norðurál expired in October 2011. In February 2011, HS Orka entered into a new PPA with Iceland Silica Corporation ehf. committing 30 MW of capacity beginning in May 2013.

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

Reykjanes Expansion Project

The Company plans to expand the Reykjanes plant's output to 180 MW in two phases pending new PPAs with one or more power purchasers and obtaining project financing. Commencement of construction activities for a 50 MW (Reykjanes 3) expansion is planned for 2012. 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, and will require no additional drilling as the source is low pressure steam generated from current operations.

To proceed with the expansion of the Reykjanes plant, HS Orka applied for an expansion to its operating permit from the National Energy Authority. 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 to sell power from the planned expansion at Reykjanes 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 view and maintains that the PPA remains valid. 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 in August 2010, and a hearing took place in May 2011. A tribunal conclusion is expected before the end of 2011.

Soda Lake Operations, 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 electricity output to NV Energy, Inc. under two 30-year PPAs that terminate in 2020.

In 2010, the Company completed an initial expansion program (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 have not yet been fully implemented, but are expected to result in up to 2 MW of incremental gross production capacity. 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 Phase I expansion 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.

In June 2010, the Company commenced a follow-on expansion effort at Soda Lake (the Phase 2 expansion") upon 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 the 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. Each of the wells has been drilled and completed to depths of around 3,300 feet. The wells are currently being allowed to heat up for temperature surveys to be carried out in November 2011.

Toba Montrose Facility, 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 Energy Financial Services ("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, and 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 PPA. The Toba Montrose Facility is EcoLogo certified and has commenced receiving funding under the Government of Canada's ecoEnergy for Renewable Power program (the "ecoEnergy program") of up to C\$72.8 million 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.

The Company's annual production from the Toba Montrose Facility is projected to vary seasonally in the following proportions:

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

TMGP operates the Toba Montrose Facility in continued cooperation with its First Nations partners: The Klahoose, Sliammon and Sechelt First Nations.

Under Canadian GAAP, the Company accounted for its investment in TMGP using the proportionate consolidation method of accounting whereby the Company recorded its 40% share of TMGP's assets, liabilities, revenues and expenses. From July 1, 2011 under IFRS, the Company uses equity accounting to account for its investment in TMGP.

All 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 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 330,000 MWh of electricity on average annually.

In February 2011, DGP commenced selling electricity to BC Hydro under a 25 year PPA. The Dokie Wind Farm is EcoLogo certified and has commenced receiving funding under the ecoEnergy program of up to C\$33.3 million 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.

The Company's annual production from the Dokie Wind Farm is projected to vary seasonally in the following proportions:

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

DGP operates the Dokie Wind Farm in continued cooperation with its First Nations partners: The Halfway River, West Moberly and Sauteau First Nations and the McLeod Lake Indian Band.

Under Canadian GAAP, the Company accounted for its investment in DGP using the proportionate consolidation method of accounting whereby the Company recorded its 51% share of DGP assets, liabilities, revenues and expenses. From July 1, 2011 under IFRS, the Company uses equity accounting to account for its investment in DGP.

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

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. 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 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\$6.0 million to purchase a 10% interest in ABW Solar General

Partnership 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 PPAs under Ontario's Renewable Energy Standard Offer Program (RESOP).

Dokie Wind Farm Expansion Project, British Columbia, Canada

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.

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

In 2010, Plutonic and GE EFS signed a 40 year PPA 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 began 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 Sallery Bay, and subject to a priority use agreement with TMGP, the Upper Toba Valley Project has the right to use the excess and unused capacity of the TMGP transmission line.

The Company has 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 and Other Development 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 and a hydroelectric property in Iceland, arising from its acquisition of HS Orka in August 2010.

Iceland

The Company's development and exploration properties in Iceland include Eldvörp, Krýsuvík and Trölladyngja.

The Eldvörp high-temperature geothermal field is located in the western part of the Reykjanes peninsula, approximately 5 km southwest from Svartsengi and approximately 11 km northeast from the Reykjanes geothermal field.

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

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. Two additional exploration wells were drilled in 2001 and 2006 to depths of 2,307 and 2,271 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 Nevada and Utah. 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, which together form the "Mariposa" geothermal reservoir. Based on exploration results at the field, an Australian (and Canadian) code compliant report was completed by Sinclair Knight Merz giving an inferred resource estimate of 320 MW available over 30 years. 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.

The Company was awarded the Los Cristales and Tres Puntas geothermal exploration leases in November 2010, and preliminary exploration work has been completed.

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 which is 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, and is characterized by the presence of high heat flow and hot springs that are the expression of a hydrothermal circulation system that appears to be similar to that of Monte Amiata located to the east.

The Mensano concession covers 21,265 hectares, and 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 later phases 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 working with the local communities and landowners 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 and is part of the Crucero trend that follows the northwest trending structures identified in the Crucero area.

In September 2011, the Company was awarded the following concessions:

- The Panejo concession, which covers 20,000 hectares and is adjacent to the Crucero concession on its northwestern boundary. The award of the Panejo concession completes most of the Crucero trend concessions, with just one remaining to be awarded at the southeast end of the trend.
- The Atarani concession, which covers 19,900 hectares, and is the first of several concessions that are expected to be awarded forming a block of concessions covering the active volcanoes of the Yucamane trend.
- The Sara Sara concession, also part of the Yucamane trend, which covers 20,000 hectares, and includes the northernmost volcano in the trend.

British Columbia, Canada

Bute Inlet Project

Following the Plutonic Power Corporation 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 an 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 PPA 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 2.3 million 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.

Geothermal

In July 2011, the Company was awarded two geothermal exploration concessions in the Upper Lillooet area, in BC, Canada, covering 4,942 hectares. The area is a known geothermal area and hosts hot springs and other geothermal manifestations including very young volcanic activity.

3. RESULTS OF OPERATIONS

The Company recorded a net loss of \$11.4 million in the current quarter (\$0.02 per common share), compared to a net loss of \$6.0 million (\$0.02 per common share) in the same period last year. Among other items, a substantial component of the \$11.4 million loss was tied to a \$24.3 million negative change in value of embedded derivatives resulting from a decline in aluminum prices in the current quarter. The financial results for the current quarter include the full consolidation of the results of HS Orka and Plutonic and their related entities. Therefore, the results for this quarter are not readily comparable with the quarter ending September 30, 2010 (the "comparative quarter") since the Company is substantially larger in the current quarter than in the comparative quarter.

Gross Profit from Operations

Gross profit from operations was \$4.9 million for the current quarter compared to \$1.8 million in the same quarter last year.

Revenues

Revenue totaled \$17.0 million for the current quarter compared to \$8.3 million in the same period last year. The September 30, 2011 quarter results include revenue from the following operations:

- HS Orka operations (including Reykjanes and Svartsengi) - \$15.8 million for the current quarter (August 17, 2010 to September 30, 2010: \$7.3 million).

- Soda Lake - \$1.2 million in the current quarter (Q1 2010: \$1.0 million).

On adoption of IFRS, Toba Montrose and Dokie General Partnership are now accounted for using the equity method of accounting. The revenue and costs associated with the Toba Montrose facility and the Dokie Wind Farm are now netted and disclosed as equity income. The proportionate share of revenue from the two facilities included in equity income for the three month period ended September 30, 2011 is as follows:

- Toba Montrose Facility - \$17.3 million (representing the Company's 40% proportionate share) for the three month period ended September 30, 2011 (Q1 2010: nil).
- Dokie Wind Farm - \$5.7 million (representing the Company's 51% proportionate share) for the three month period ended September 30, 2011 (Q1 2010: nil).

Cost of Production

Cost of production for the quarter totalled \$12.2 million including depreciation and amortization, compared to \$6.5 million in the same quarter last year. This includes costs for labour, repairs and maintenance, supplies, and all other operating costs, including plant general and administrative expenses and depreciation and amortization of the operating facilities.

- Soda Lake accounted for \$0.8 million in the current quarter (Q1 2010: \$1.2 million).
- HS Orka accounted for the remaining \$11.4 million of total production costs for the current quarter (August 17, 2010 to September 30, 2010: \$5.3 million).

The proportionate share of production costs from the Toba Montrose facility and the Dokie Wind Farm included in equity income for the three month period ended September 30, 2011 as follows:

- Toba Montrose Facility - \$3.3 million (representing the Company's 40% proportionate share) for the three month period ended September 30, 2011 (Q1 2010: nil).
- Dokie Wind Farm – \$3.3 million (representing the Company's 51% proportionate share) for the three month period ended September 30, 2011 (Q1 2010: nil).

Income (Expenses)

Total income (expenses) for the current quarter was (\$20.4) million compared to \$7.0 million in the same quarter last year.

General and administrative expenses were \$4.2 million for the current quarter compared to \$3.2 million in the same quarter last year. This includes \$3.2 million (\$1.4 million in the comparative quarter) in costs for general administration and overhead necessary to operate an expanded operation with offices in Canada, USA, Chile, and Iceland as well as a full three months of HS Orka's general and administrative costs for the current quarter (\$0.3 million for the period August 17, 2010 to September 30, 2010).

Professional fees were \$0.3 million for the current quarter compared to \$1.0 million in the comparative quarter. In 2010, the Company incurred professional fees in relation to the acquisition of HS Orka while no such costs were incurred in the comparative quarter.

Amortization, depletion and accretion were \$0.5 million for the current quarter compared to \$0.7 million in the comparative quarter.

General exploration expense was \$0.2 million for the current quarter compared to \$0.3 million in the comparative quarter. The level of exploration is consistent with the comparative quarter as the Company continues to search for and evaluate prospective new projects.

Finance income earned for the current quarter was \$0.3 million, including \$0.2 million from HS Orka, compared to \$0.3 million in the comparative quarter.

Equity income earned for the current quarter was \$12.8 million compared to \$8.4 million in the comparative quarter. Equity income in the current quarter included the Company's 40% share of Toba Montrose General Partnership that generated an income of \$11.5 million (2010: nil) and the Company's 51% share of the Dokie General Partnership that generated an income of \$0.3 million (2010: nil). Equity income for the same quarter last year included the Company's share of equity income in HS Orka prior to acquisition of control on August 17, 2010.

Financing costs incurred for the current quarter were \$2.9 million compared to \$2.4 million in the comparative quarter. This includes the interest on the long-term bond liability, the loan drawn from the revolving credit facility and the HS Orka long term debt.

Net other gains and losses for the current quarter were a net other loss of \$26.1 million compared to a net other gains of \$4.2 million in the comparative quarter. The net \$26.1 million loss is comprised primarily of:

- \$2.7 million gain from the change in the fair value of the long term bond liabilities. As partial consideration for its acquisition of shares of HS Orka, the Company has long term bond liabilities of \$110.6 million. The bonds contain certain embedded derivatives and have therefore been accounted for as hybrid instruments designated as at fair value through profit or loss and are recorded at fair value at each balance sheet date with the change in the fair value recorded in the statement of operations.
- Loss resulting from the change in the fair value of derivatives of \$24.3 million (Q1 2010: \$13.3 million gain). HS Orka has two PPA under which the sales price of the power sold is based on the market price of aluminum. The indexing of the sales price to the price of aluminum gives rise to an embedded derivative which is fair valued at each reporting date. Due to the decline in aluminum forward prices since the summer of 2011 HS Orka recorded a loss of \$24.9 million relating to the change in the fair value of this embedded derivative.
- Foreign exchange loss of \$4.5 million compared to a gain of \$6.5 million for the same period in 2010.

4. 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 the fiscal year ended June 30, 2010. With the further acquisition of another 38.03% of HS Orka on August 17, 2010, the Company's results include the consolidation of HS Orka into its consolidated financial statements from that day forward. The Company's results include the consolidation of Plutonic into its consolidated financial statements from May 13, 2011 forward.

Seasonality has an impact on operations; Soda Lake production levels are lower in the summer months due to hotter ambient temperatures in Nevada, and HS Orka has a lower demand in the summer months in Iceland. Toba Montrose Facility production levels are higher in the summer months due to spring freshet and glacier melt, and Dokie Wind Farm production levels are higher in the winter months, the

seasonality of the results of Toba Montrose and Dokie will impact the share of profit from equity accounted investees. 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 reported in US dollars expressed in thousands, except for share amounts. Financial information for September 30, 2010 and 2011 is reported under IFRS, and all other quarterly financial information is in accordance with Canadian GAAP ("CGAAP"). 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:	September 30,	June 30,	March 31,	December 31,
	2011	2011	2011	2010
	IFRS	CGAAP	CGAAP	CGAAP
Revenue	17,009	25,406	18,485	18,559
Gross profit	4,856	10,609	5,917	5,406
Other income (expenses)	(20,357)	(36,956)	8,237	(12,229)
Income taxes (expense)	4,084	3,125	(4,859)	(1,358)
Net income (loss) attributable to the Company	(7,782)	(20,654)	9,025	(7,267)
Earnings (loss) per share attributable to the Company (basic and diluted)	(0.02)	(0.07)	0.03	(0.02)

Three months ended:	September 30,	June 30,	March 31,	December 31,
	2010	2010	2010	2009
	IFRS	CGAAP	CGAAP	CGAAP
Revenue	8,325	1,347	1,295	1,409
Gross profit	1,817	(6)	148	337
Other income (expenses)	7,015	(8,256)	(704)	(5,300)
Income taxes (expense)	(2,870)	(412)	698	(286)
Net income (loss) attributable to the Company	6,468	(8,674)	142	(5,249)
Loss per share attributable to the Company (basic and diluted)	0.02	(0.04)	-	(0.02)

5. LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2011, the Company had consolidated cash and cash equivalents of \$24.7 million (June 30, 2011: \$68.3 million).

The reduction in cash and cash equivalents from June 30, 2011 was due primarily to the net repayment of C\$18.0 million to the credit facility provided by the Company's Chairman during the period, \$10.0 million repayment of loans payable, \$5.6 million purchase of plant and equipment, \$2.7 million in development costs and the settlement of other current liabilities.

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. Other than in Iceland, a minimal amount of cash is held by banks in the countries where the Company's subsidiaries operate to fund their operating needs.

At September 30, 2011, the Company had restricted cash of \$4.5 million (June 30, 2011: \$4.5 million) representing the restricted cash for HS Orka as required per its 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 accounting standards. Readers are cautioned that this calculation may differ among companies and analysts and therefore may not be directly comparable.

The Company ended the quarter with consolidated working capital of \$3.9 million compared to \$39.5 million at June 30, 2011. The decrease was due primarily to the use of cash in the period, as explained above.

Long-term debt consists primarily of bonds (\$110.6 million) and other long-term debt assumed with the acquisition of HS Orka (\$161.6 million), in addition to \$3.6 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.

Management is of the opinion that the Company will have sufficient working capital to fund its administrative, exploration, development and investment activities and plans for the ensuing year. The Company expects to begin receiving its share of cash distributions from the Toba Montrose and Dokie General Partnerships in 2011 and 2012, respectively, subject to meeting certain credit agreement requirements, and the Company has access to a \$20 million revolving line of credit.

Certain of the Company's subsidiaries (HS Orka, TMGP and DGP) are subject to financial covenants regarding their respective loan agreements.

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 \$43.4 million and a carrying value of \$39.4 million at September 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 June 30, 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 September 30, 2011, as HS Orka has a waiver as at this date and HS Orka is in compliance with this covenant.

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 \$137.3 million and a carrying value of \$132.6 million as at September 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 September 30, 2011. If indexation was included in the calculation, HS Orka would not be in compliance with the covenant. In an effort to ensure HS Orka remains compliant with its debt covenants, the Company is currently negotiating an amendment to the credit agreement which, among other things, may ease the terms of this covenant.

6. TRANSACTIONS WITH RELATED PARTIES

During the current quarter the Company repaid the C\$22.0 million credit facility with the Company's Chairman, and entered in to a new revolving credit facility to have the option to draw up to C\$20 million. Interest on drawn amounts is payable monthly at the rate of 8% per annum, compounded daily. In addition, a standby fee in the amount of 1% of the credit facility and a drawdown of 1.5% of the amount advanced is payable in cash.

As at September 30, 2011 the Company had drawn down C\$4.0 million. During the current quarter interest, standby and drawdown fees totalling \$0.4 million were paid.

7. OFF-BALANCE SHEET ARRANGEMENTS

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

8. MANAGEMENT OF FINANCIAL RISKS

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 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 September 30, 2011, 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 \$24.7 million at September 30, 2011 (\$68.3 million at June 30, 2011) 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 and currency swap settlement obligations (as applicable) as they become due.

The long term bond liabilities assumed on acquisition of HS Orka and amounts due under the credit facility 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. The Company also manages its interest rate risk through fixed-rate financings and interest rate hedges at TGMP and DGP.

b) Currency Risk

The functional currency of the Company and its subsidiaries, except HS Orka, Magma Energy (U.S.) Corp., Soda Lake Holdings I, LLC, Soda Lake Holdings II, LLC, Amor IX LLC, Soda Lake Limited Partnership, and Soda Lake Resources Partnership, 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. Electricity price risk at the Company's Soda Lake facility, Toba Montrose Facility and Dokie Wind Farm is minimized through the sale of all power produced at those facilities to individual customers under long term PPAs primarily under fixed or escalating price structures

Two of HS Orka's PPAs provides for the sale of electrical power at a price based on the market price of aluminum. Therefore, a portion of its revenues and the profitability of its operations are significantly exposed to fluctuations in the price of aluminum. Currently 36% of HS Orka's revenues are indexed to the price of aluminum (46% during the three months ended September 30, 2011).

Bonds issued or assumed as partial consideration for the purchase of HS Orka are subject to adjustments on principal amounts owed on the due date, and the annual interest payments thereon, based on the price of aluminum, subject to floors and caps.

9. 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 interim condensed consolidated financial statements for the Company's significant accounting policies.

A – Consolidation

i) Business combinations

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 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 IFRS guidance.

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 and fair value of previously held investments in the acquiree less the fair value of the net identifiable assets and liabilities recognized. If, after reassessment, the Company's interest in the fair value of the acquiree's net 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.

ii) *Acquisitions of non-controlling interests*

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.

iii) *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.

iv) *Investments in associates and jointly controlled entities*

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.

Jointly controlled entities are those entities over whose activities the Company has joint control, established by contractual agreement. Investments in associates and jointly controlled entities 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 net income 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 or joint control commences until the date that significant influence or joint control 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.

The Company has a 40% interest in the Toba Montrose General Partnership ("TMGP"), a joint venture, which owns and operates the Toba Montrose facility, and a 51% interest in the Dokie General Partnership ("DGP"), a joint venture, which owns and operates the Dokie Wind Farm. The Company equity accounts for its investment in TMGP and DGP.

The Company, through HS Orka has a 31.36% interest in Bláa Lðnið ehf., and 24.36% interest in Blue Lagoon International ehf., Hótel Bláa Lónið ehf. and Hreyfing Eignarhaldsfélag ehf. (collectively "Blue Lagoon hf"). The Company equity accounts for these investments.

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.

B - Plant and equipment

i) *Recognition and measurement*

Plant and equipment is measured at cost, less accumulated depreciation and accumulated impairment losses. 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. When parts of an item of property, plant and equipment have different useful lives, they are accounted for separately. 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 plant and equipment, including betterments, are capitalized and repairs and maintenance are expensed.

Gains and losses on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with its carrying amount, and are recognized net within other income/other expense in the consolidated statement of operations.

iii) *Depreciation*

Depreciation of the cost of an asset less its residual amount 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.

Depreciation of the cost of an asset less its residual amount is provided on a declining balance method for all other property and equipment with annual rates ranging from 20% to 30%.

C - Intangible assets

a) *Goodwill*

Business acquisitions are accounted for using the purchase method whereby assets acquired and liabilities assumed are recorded at fair value as of the date of the acquisition with the excess of the purchase price over such fair value recorded as goodwill. Goodwill is not amortized.

ii) *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. Such costs include materials, direct labour, directly attributable overhead costs and borrowing costs. 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 typically 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, the contractual arrangements to complete the development and construction of these projects, entering into a

power 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, provided that previous mentioned capitalization criteria are met. Such costs include acquisition costs and exploration and development expenditures (including materials, direct labour, directly attributable overhead costs and borrowing costs), net of any recoveries and grants. Costs are deferred until such time as the extent of the resources has been determined and (a) the geothermal property interests are developed, (b) the property sold or (c) the rights are allowed to lapse. Costs that are incurred but not for a specific identifiable property are expensed in the period incurred.

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.

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.

iii) Service concession arrangements

The Company recognizes an intangible asset arising from a service concession arrangement when it has the right to charge for usage of the concession infrastructure. An intangible asset received as consideration for providing construction or upgrade services in a service concession arrangement is measured at fair value upon initial recognition. Subsequent to initial recognition, the intangible asset is measured at cost, which includes capitalized borrowing costs, less accumulated amortization and accumulated impairment losses.

DGP's Power Purchase Agreement ("PPA") with BC Hydro is considered a service concession arrangement.

iv) Other intangible assets

Intangible assets include project permits and licenses, prepaid land tenure license amounts, First Nations Impact Benefits Agreements ("IBA") and Memorandum of Understanding ("MOU") costs for Toba Montrose and the Dokie Wind Farm respectively, and software. Payments made to First Nations under the terms of the IBAs and MOUs were capitalized to intangible assets prior to the commencement of commercial operations, after which time such payments are expensed in the statement of operations.

v) Amortization

Amortization is based on the cost of an asset less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and development costs, from the date that they are available for use.

HS Orka has software that is amortized on a straight-line basis over terms varying from 5-10 years. IBA's and MOU's recorded in TMGP and DGP are amortized over the life of agreement.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

D – Functional Currency

The functional currency of the Company and each of its subsidiaries, except HS Orka, Magma Energy (U.S.) Corp. Soda Lake Holdings I, LLC, Soda Lake Holdings II, LLC, Amor IX LLC, Soda Lake Limited Partnership, and Soda Lake Resources Partnership, is the Canadian dollar (“C\$”). Monetary assets and liabilities of each of the Company’s subsidiaries, other than HS Orka, Magma Energy (U.S.) Corp. Soda Lake Holdings I, LLC, Soda Lake Holdings II, LLC, Amor IX LLC, Soda Lake Limited Partnership, and Soda Lake Resources Partnership, 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 the Icelandic Krona (“ISK”) and the functional currency of Magma Energy (U.S.) Corp. Soda Lake Holdings I, LLC, Soda Lake Holdings II, LLC, Amor IX LLC, Soda Lake Limited Partnership, and Soda Lake Resources Partnership is the United States (“U.S.”) dollar. As a result, assets and liabilities of these entities are translated into Canadian dollars at the exchange rate in effect on the balance sheet date and, 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).

International Financial Reporting Standards

Effective January 1, 2011 Canadian publicly listed entities were required to prepare their financial statements in accordance with IFRS. Due to the requirement to present comparative financial information, the effective transition date for the Company is July 1, 2010. The current quarter is the Company’s first reporting period under IFRS.

The Company has now substantially completed its IFRS changeover plan, with just the post implementation phase remaining.

Notes 2 and 21 to the condensed consolidated interim financial statements provide more detail on key Canadian GAAP to IFRS differences, accounting policy decisions and IFRS 1, First-Time Adoption of International Financial Reporting Standards (“IFRS 1”), optional exemptions for significant or potentially significant areas that have had an impact on the Company’s financial statements on transition to IFRS or may have an impact in future periods.

Transitional Financial Impact

As a result of accounting policy choices selected and changes that were required to be made under IFRS, the Company has recorded a reduction in shareholders’ equity of \$0.8 million as at July 1, 2010. The table below outlines adjustments to shareholders’ equity on adoption of IFRS on July 1, 2010, at September 30, 2010 and June 30, 2011, for comparative purposes (all of which are outlined in the notes to the condensed consolidated interim financial statements). In accordance with IFRS 1, the Company was required to maintain estimates and assumptions in existence at July 1, 2010 including but not limited to metal prices, discount rates, capital and operating costs.

	June 30	September 30	July 1
	2011	2010	2010
	\$	\$	\$
Total shareholders' equity reported under Canadian GAAP	406,328	227,725	142,070
Increase (decrease) net of tax in respect of:			
Functional currency	(5,116)	(2,713)	(595)
Income tax on geothermal exploration costs	(154)	(154)	(154)
HS Orka pension plan	(1,660)	(1,496)	(27)
Depreciation on fair value uplift on HS Orka plant and equipment	(204)	(37)	-
DGP Service concession arrangement	(1,055)	-	-
Total shareholders' equity reported under IFRS	398,139	223,325	141,294

Comprehensive Income Impact

As a result of accounting policy choices selected and changes that were required to be made under IFRS, the Company has recorded a decrease in total comprehensive income of approximately \$2.7 million and \$6.1 million for the three months ended September 30, 2010 and the year ended June 30, 2011, respectively.

The following is a summary of the adjustments to comprehensive income for the three months ended September 30, 2010 and the year ended June 30, 2011 under IFRS (all of which are outlined in the notes to the consolidated interim financial statements), expressed in thousands of USD:

	Year ended	3 months ended
	June 30	September 30
	2011	2010
	\$	\$
Total comprehensive income as reported under Canadian GAAP	(3,048)	24,938
Increase (decrease) net of tax in respect of:		
Functional currency	(4,502)	(2,118)
HS Orka pension plan	(232)	(76)
Depreciation on fair value uplift on HS Orka plant and equipment	(204)	(38)
DGP Service concession arrangement	(1,055)	-
Total comprehensive income as reported under IFRS	(9,041)	22,706

Cash Flow impact

The adoption of IFRS did not have an impact on the total operating, financing and investing cash flows, with the exception of the equity accounting for TMGP and DGP, which resulted from the acquisition of Plutonic on May 13, 2011.

The impact on the operating, investing and financing cash flows of the Company at June 30, 2011 as a result of this IFRS adjustment is as follows:

Operating activities: \$2.9 million reduction
 Financing activities: \$2.2 million reduction
 Investing activities: \$0.5 million reduction

Control Activities

For all changes to policies and procedures that have been identified, the effectiveness of internal controls over financial reporting and disclosure controls and procedures have been assessed and any needed changes have been implemented. In addition, controls over the IFRS changeover process have been implemented, as necessary. The Company has identified and implemented the required accounting process changes that resulted from the application of IFRS accounting policies and these changes were not significant. The Company is in the final stages of completing the design, implementation and documentation of the internal controls over accounting process changes resulting from the application of IFRS accounting policies. The existing control framework has been applied to the IFRS changeover process. All accounting policy changes, transitional exemption elections and transitional financial position impacts were subject to review by senior management and the Audit Committee of the Board of Directors.

Business Activities and Key Performance Measures

The Company is in the process of reviewing the impacts of the IFRS transition project on its compensation arrangements, in particular those that are calculated based on indicators in the financial statements.

Information Technology and Systems

The IFRS transition project did not have a significant impact on information systems for the convergence periods, nor is it expected that significant changes are required in the post-convergence periods.

Post-Implementation

The post-implementation phase will involve continuous monitoring of changes in IFRS in future periods. It has been noted that the standard-setting bodies that determine IFRS have significant ongoing projects that could impact the IFRS accounting policies that the Company has selected. In particular, there may be additional new or revised IFRS rulings or Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") in relation to consolidation, financial instruments, leases, revenue recognition. The International Accounting Standards Board ("IASB") is also currently working on an extractive industries project, which could significantly impact the financial statements of the Company primarily in the areas of capitalization of exploration costs and disclosures. Processes are in place to ensure that potential changes are monitored and evaluated. The impact of any new IFRS rulings and IFRIC Interpretations will be evaluated as they are drafted and published.

10. FUTURE ACCOUNTING STANDARDS

a) IFRS 9, Financial Instruments

In November 2009, the IASB published IFRS 9, Financial Instruments, which covers the classification and measurement of financial assets as part of its project to replace IAS 39, Financial Instruments: Recognition and Measurement. In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is effective for the Company on July 1, 2013. Early adoption is permitted and the standard is required to be applied retrospectively.

The Company has not yet assessed the impact of the standard.

b) On May 12, 2011 the IASB issued the following statements:

- i. IFRS 10, Consolidation ("IFRS 10")
- ii. IFRS 11 Joint Venture ("IFRS 11")
- iii. IFRS 12 Disclosures of Involvement with Other Entities ("IFRS 12")
- iv. IAS 27 Separate Financial Statement (revised 2011) ("IAS 27"), has been amended for issuance of IFRS 10 while maintaining the current guidance for separate financial statements
- v. IAS 28 Investments in Associates and Joint Ventures (revised 2011) ("IAS 28"), has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11.

Each of these standards has an effective date for annual periods beginning on or after January 1, 2013. Early adoption of any of these standards is permitted only if the other standards are also adopted early. The Company has not yet assessed the impact of these standards or determined whether it will adopt these standards early.

- i. IFRS 10 establishes control as the single basis for consolidation of entities, regardless of the nature of the investee. An entity has control over an investee when it has power over it; it is exposed, or has the rights, to variable returns from its involvement with the investee; and has the ability to use its power over the investee to affect those returns. IFRS 10 replaces IAS 27's guidance that addresses when and how an investor should prepare consolidated financial statements and replaces all of SIC-12.
- ii. IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and the obligations for the liabilities. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The determination whether a joint arrangement constitutes a joint operation or a joint venture is based on the parties' rights and responsibilities under the arrangement and thus the existence of a separate legal vehicle is no longer the main factor in making such determination. Joint ventures will be accounted for using the equity method of accounting thereby eliminating the option available under existing IFRS to use either the proportionate consolidation method or the equity method. Joint operations are accounted for by a venturer by recognizing its share of the assets, liabilities, revenues and expenses of the joint operation.
- iii. IFRS 12 sets out the required disclosures relating to an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. An entity is required to disclose information that enables users of its financial statements to assess the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial statements.
- iv. IFRS 13 Fair Value Measurement ("IFRS 13") was also issued on May 12, 2011 and establishes a single framework for measuring fair value where it is required by other standards. IFRS 13 applies to all transactions (whether financial or non-financial) for which IFRSs require or permit fair value measurements, with the exception of share-based payment transactions accounted for under IFRS 2 Share based Payment and leasing transactions within the scope of IAS 12 Leases, and measurements that have some similarities to fair value but are not fair value such as net realisable value under IAS 2 Inventories or value in use under IAS 36 Impairment of assets. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly

transaction between market participants at the measurement date (i.e. an exit price). This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted.

11. 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.

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure policy and procedures. Based on the results of that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as at September 30, 2011, the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in reports it files is recorded, processed, summarized and reported within the appropriate time periods and forms.

12. CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the Company's internal controls over financial reporting during the period ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. 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.

13. DISCLOSURE OF OUTSTANDING SHARE DATA

As at November 14, 2011, the Company had the following common shares, stock options and warrants outstanding:

Common shares	465,116,280
Stock options (vested and unvested)	13,670,633
Warrants	-
Fully diluted common shares outstanding	478,786,913