



Condensed Consolidated Interim Financial Statements  
**September 30, 2011 and 2010**

(expressed in United States dollars)

(Unaudited)

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# Alterra Power Corp.

## Consolidated Balance Sheets – (unaudited)

(expressed in thousands of United States dollars)

	Note	30-Sep-11	30-Jun-11	1-Jul-10
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents		\$ 24,693	\$ 68,286	\$ 25,343
Restricted cash		4,500	4,500	-
Trade and other receivables		10,904	12,224	728
Current portion of embedded derivatives		-	2,381	-
Inventories		3,169	3,263	-
Prepaid expenses		501	661	491
		<u>43,767</u>	<u>91,315</u>	<u>26,562</u>
<b>Bonds receivable</b>		4,316	4,621	-
<b>Long-term receivable</b>		1,320	5,679	-
<b>Prepaid lease and royalty fee</b>		3,967	-	-
<b>Equity investment - Toba Montrose General Partnership</b>	6	37,919	36,670	-
<b>Equity investment - Dokie General Partnership</b>	7	20,385	21,884	-
<b>Other investments</b>	8	23,225	23,079	103,801
<b>Embedded derivatives</b>		-	17,032	-
<b>Other assets</b>		350	375	822
<b>Plant and equipment</b>		353,443	368,313	35,090
<b>Geothermal development costs</b>	9	125,078	130,054	31,656
<b>Hydro development costs</b>	10	70,097	74,347	-
<b>Wind development costs</b>	10	17,381	18,720	-
<b>Other intangible assets</b>		3,281	3,498	-
<b>Goodwill</b>	11	18,620	19,536	-
		<u>\$ 723,149</u>	<u>\$ 815,123</u>	<u>\$ 197,931</u>
<b>Liabilities and Equity</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities		\$ 13,601	\$ 29,839	\$ 5,105
Other liabilities		20	282	-
Current portion of long-term debt and capital lease obligations	13	22,175	18,828	23
Current portion of embedded derivatives		1,526	-	-
Current portion of currency and interest rate swaps		2,564	2,804	-
		<u>39,886</u>	<u>51,753</u>	<u>5,128</u>
<b>Long-term debt and capital lease obligations</b>	13	253,672	294,864	49,396
<b>Pension fund obligation</b>	12	13,025	13,067	-
<b>Embedded derivatives</b>		4,520	-	-
<b>Currency and interest rate swaps</b>		5,919	7,131	-
<b>Below market contracts</b>		27,815	29,797	-
<b>Deferred income tax</b>		15,248	19,993	-
<b>Deferred revenue</b>		596	379	2,113
		<u>360,681</u>	<u>416,984</u>	<u>56,637</u>
<b>Equity</b>				
<b>Share capital</b>	14	361,740	361,740	153,403
<b>Contributed surplus</b>		2,909	2,815	974
<b>Accumulated other comprehensive income (loss)</b>		(15,237)	9,111	-
<b>Deficit</b>		(34,599)	(26,817)	(13,083)
<b>Total equity attributable to owners of the Company</b>		<u>314,813</u>	<u>346,849</u>	<u>141,294</u>
<b>Non-controlling interest</b>		47,655	51,290	-
<b>Total equity</b>		<u>362,468</u>	<u>398,139</u>	<u>141,294</u>
		<u>\$ 723,149</u>	<u>\$ 815,123</u>	<u>\$ 197,931</u>

Commitments and contingencies (note 16)

Subsequent events (note 22)

**Approved on November 14, 2011 on behalf of the Board of Directors**

*"Ross Beaty"*  
Ross Beaty  
(Director)

*"Donald Shumka"*  
Donald Shumka  
(Director)

# Alterra Power Corp.

## Consolidated Statements of Operations

For the three months ended September 30, 2011 and 2010 – (Unaudited)

(expressed in thousands of United States dollars, except for number of shares and per common share amounts)

	Note	30-Sep-11	30-Sep-10
<b>Revenues</b>			
Energy sales		\$ 16,689	\$ 8,325
Portfolio energy credit sales		320	-
		<u>17,009</u>	<u>8,325</u>
Costs of sales		<u>(12,153)</u>	<u>(6,508)</u>
<b>Gross profit</b>		<u>4,856</u>	<u>1,817</u>
<b>Income (expenses)</b>			
General and administrative	18	(4,192)	(3,140)
General exploration		(236)	(329)
Share of profit of equity-accounted investees	6-8	12,803	8,392
Finance income		286	329
Finance costs		(2,885)	(2,427)
Other gains and losses	19	(26,133)	4,190
		<u>(20,357)</u>	<u>7,015</u>
<b>Income (loss) before income tax</b>		<u>(15,501)</u>	<u>8,832</u>
<b>Income tax recovery (expense)</b>		<u>4,084</u>	<u>(2,870)</u>
<b>Income (loss) for the period</b>		<u>\$ (11,417)</u>	<u>\$ 5,962</u>
<b>Total income (loss) attributable to:</b>			
Owners of the Company		\$ (7,782)	\$ 6,468
Non-controlling interest		(3,635)	(506)
		<u>\$ (11,417)</u>	<u>\$ 5,962</u>
<b>Weighted average shares outstanding</b> (thousands)			
Basic and diluted		465,116	277,574
<b>Earnings (loss) per common share attributable to owners of the Company</b>			
Basic and diluted		\$ (0.02)	\$ 0.02

# Alterra Power Corp.

## Consolidated Statements of Comprehensive Income (Loss)

For the three months ended September 30, 2011 and 2010 – (Unaudited)

(expressed in thousands of United States dollars)

	<u>30-Sep-11</u>	<u>30-Sep-10</u>
Income (loss) for the period	\$ (11,417)	\$ 5,962
Other comprehensive income (loss)		
Effective portion of changes in fair value of cash flow hedge, net of taxes	(8,114)	-
Net change in fair value of cash flow hedge transferred to profit or loss, net of taxes	1,041	-
Translation adjustment for foreign operations	(17,275)	16,744
	<u>(35,765)</u>	22,706
Attributable to:		
Owners of the Company	(32,130)	23,212
Non-controlling interest	(3,635)	(506)
<b>Comprehensive income (loss) for the period</b>	<u>\$ (35,765)</u>	<u>\$ 22,706</u>

# Alterra Power Corp.

## Consolidated Statements of Cashflows

For the three months ended September 30, 2011 and 2010 – (Unaudited)

(expressed in thousands of United States dollars)

	Note	30-Sep-11	30-Sep-10
<b>Operating activities</b>			
Income (loss) for the period		\$ (11,417)	\$ 5,962
Items not affecting cash			
Amortization, depreciation, depletion and accretion		3,365	1,212
Amortization of below market contracts		(654)	(323)
Share of profit of equity-accounted investees		(12,803)	(8,392)
Change in fair value of long-term debt		(2,660)	5,644
Change in fair value of derivatives		24,293	(13,282)
Loss on remeasurement of HS Orka		-	9,805
Unrealized foreign exchange		4,506	4,178
Future income taxes expense (recovery)		(4,084)	2,870
Other		101	315
Interest received		270	70
Interest paid		(4,419)	(1,063)
Increase in non-cash working capital items	20	2,385	5,475
<b>Cash generated by (used in) operating activities</b>		<b>(1,117)</b>	<b>12,471</b>
<b>Financing activities</b>			
New borrowings		3,774	9,624
Repayment of loans payable		(28,362)	(3,318)
Capital lease obligations payments		(6)	-
Proceeds on the sale of bonds		-	3,101
Shares issued for cash, net of issue costs		-	41,260
<b>Cash generated by (used in) financing activities</b>		<b>(24,594)</b>	<b>50,667</b>
<b>Investing activities</b>			
Cash used to purchase HS Orka hf, net of cash acquired		-	(29,479)
Acquisition costs relating to PCC acquisition		(5,970)	-
Purchase of plant and equipment		(5,555)	(8,486)
Geothermal development costs		(737)	(6,281)
Hydro and wind development costs		(1,954)	-
Other		(261)	694
<b>Cash used in investing activities</b>		<b>(14,477)</b>	<b>(43,552)</b>
<b>Effect of foreign exchange on cash</b>		<b>(3,405)</b>	<b>1,297</b>
<b>Increase (decrease) in cash and cash equivalents</b>		<b>(43,593)</b>	<b>20,883</b>
<b>Cash and cash equivalents - beginning of year</b>		<b>68,286</b>	<b>25,343</b>
<b>Cash and cash equivalents - end of period</b>		<b>\$ 24,693</b>	<b>\$ 46,226</b>



# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

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### 1) NATURE OF OPERATIONS

Alterra Power Corp. (formerly Magma Energy Corp.) was incorporated on January 22, 2008, pursuant to the Business Corporations Act of British Columbia, Canada.

Alterra Power Corp. and its subsidiary companies (collectively the "Company") are engaged in the operation, development, exploration and acquisition of renewable power projects. The Company owns two geothermal power plants in Iceland (the "Svartsengi and Reykjanes Geothermal Plants"), one geothermal power plant in Nevada ("Soda Lake"), and 40% of two run of river hydro power plants (the "Toba Montrose Facility") and 51% of an operating wind project (the "Dokie Wind Farm") in British Columbia.

In addition to the operating facilities, the Company has three advanced-stage exploration geothermal properties in Iceland (the Eldvörp, Krýsuvík and Trölladyngja properties), several advanced-stage exploration geothermal properties in Nevada (including the McCoy and Desert Queen properties), two advanced-stage exploration run of river and wind projects in British Columbia (the Upper Toba Valley project and the Dokie Wind Expansion project) and the Mariposa geothermal property interest in Chile. The Company's exploration and development pipeline also includes a number of early-stage properties in British Columbia, Nevada, Utah, Italy, Chile, Iceland and Peru.

The recovery of the carrying values of the Company's projects and properties is typically dependent upon the successful completion of the projects or the sale of projects to third parties. The successful completion of a project is typically dependent upon receiving the necessary environmental and other licenses, the contractual arrangements to complete the development and construction of the project, 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 carrying value of the Company's project and properties represent net costs to date, less amounts amortized and/or written off and does not represent current or future values.

Uncertainty exists in respect of the calculation of certain debt covenants of the Company's subsidiary HS Orka hf ("HS Orka") as detailed in note 13(c).

### 2) SIGNIFICANT ACCOUNTING POLICIES

#### a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). These are the Company's first International Financial Reporting Standards ("IFRS") condensed consolidated interim financial statements and IFRS 1, *First Time Adoption of IFRS* has been applied, as they are part of the period covered by the Company's first IFRS financial statements for the six month period ending December 31, 2011. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with our Canadian GAAP financial statements for the year ended June 30, 2011. An explanation of how the transition from Canadian GAAP to IFRS has affected the reported statements of income (loss), comprehensive income (loss), financial position, and cash flows of the Company is provided in note 21. That note includes information on the provisions of IFRS 1 and the exemptions that the Company elected to apply, reconciliations of equity, net income and comprehensive income for comparative periods and equity at the date of transition, as reported under Canadian GAAP to those reported for those periods and at the end of the date of transition under IFRS. These condensed consolidated interim financial statements were approved by the Board of Directors on November 14, 2011.

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

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### 2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### b) Basis of measurement

These condensed consolidated interim financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value (currency and interest rate swaps);
- embedded derivatives in electric power sales contracts are measured at fair value;
- financial liabilities designated as fair value through profit or loss are measured at fair value (bonds);
- available for sale financial instruments are measured at fair value;
- defined benefit obligation is measured at the present value of the pension obligation.

#### c) Functional and presentation currency

The functional currency of the Company is Canadian dollars. The reporting currency is in United States dollars.

#### d) Basis of consolidation

These condensed consolidated interim financial statements are presented in United States dollars and include the accounts of the Company and the following directly or indirectly wholly-owned subsidiaries:

Magma Energy (U.S.) Corp., Magma Energy Chile Limitada, Magma Energia Geotermica S.A., Isla Verde Energia S.A., Magma Energy Sweden A.B., Magma Energy Iceland ehf, Magma Energy Italia S.R.L., Soda Lake Holdings I, LLC, Soda Lake Holdings II, LLC, Amor IX LLC, Soda Lake Limited Partnership, Soda Lake Resources Partnership, Magma Energia Argentina S.A., Compania de Energia Limitada, Magma Energy Servicios Ltda., Plutonic Power Corporation ("Plutonic"), Plutonic Hydro Inc., Plutonic TMP Holdings Inc., Upper Toba Hydro Inc., Bute Hydro Inc., Plutonic Dokie Holdings Inc., Plutonic Dokie Expansion Holdings Inc., Stave Point Holdings Inc., Jimmie Hydro Inc., Dalgleish Hydro Inc., Plutonic Solar Inc., Plutonic ABW Holdings Inc., Plutonic Upper Toba Holdings Inc.

Since June 1, 2011, the Company has held a 75% interest in HS Orka, which owns and operates the Svartsengi and Reykjanes Geothermal Plants in Iceland. The Company consolidates the assets, liabilities, revenue and expenses of HS Orka in full, recognizing the 25% non-controlling interest in equity.

#### 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 the statement of operations as a bargain purchase.

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

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### 2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

As part of its transition to IFRS, the Company has elected not to restate business combinations that occurred prior to July 1, 2010 in accordance with IFRS 1.

#### *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 31.71% interest in Bláa Lónið 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.

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

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### 2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### e) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the amounts reported in the consolidated financial statements and related notes. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. Significant areas where management's judgment affects the reported amounts are depreciation, the assessment of asset impairment, stock-based compensation, the fair value of financial instruments (including embedded derivatives), deferred income tax assets and liabilities and associated reserves, tax positions, purchase price assumptions, recoverability of geothermal, hydro and wind development costs, evaluation of control of subsidiaries and asset retirement obligations. Actual results could differ from those estimates.

#### f) Financial instruments

##### i) *Non-derivative financial assets*

The Company initially recognizes loans, receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the financial instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company classifies non-derivative financial assets into the following financial assets categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

##### *Financial assets at fair value through profit or loss*

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if it eliminates or significantly reduces an accounting mismatch, the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy or the financial asset contains one or more embedded derivatives. Upon initial recognition attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

The Company does not have any financial assets at fair value.

##### *Held-to-maturity financial assets*

If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Company from classifying investment securities as held-to-maturity for the then current and the following two financial years.

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

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### 2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company does not have any held-to-maturity financial assets.

#### *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables are comprised of cash and cash equivalents, restricted cash, trade and other receivables and the long-term receivable accounts.

Cash and cash equivalents and restricted cash comprise cash balances and call deposits with original maturities of three months or less.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Company's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to the statement of operations.

Available-for-sale financial assets comprise of bonds receivable.

#### **ii) Non-derivative financial liabilities**

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company classifies non-derivatives financial liabilities as financial liabilities at fair value through profit or loss or other financial liabilities.

#### *Financial liabilities at fair value through profit or loss*

A financial liability is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial liabilities are designated at fair value through profit or loss if it eliminates or significantly reduces an accounting mismatch, the Company manages such instruments based on their fair value in accordance with the Company's documented risk management or investment strategy or the financial liability contains one or more embedded derivatives. Upon initial recognition, attributable transaction costs are recognized in the statement of operations as incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in the statement of operations.

The Company has designated bonds payable as financial liabilities at fair value through profit or loss.

#### *Other financial liabilities*

The Company classifies all other non-derivative financial liabilities as other financial liabilities. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, these financial liabilities are measured at amortized cost using the effective interest rate method.

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

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### 2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other financial liabilities are comprised of accounts payable and accrued liabilities, long-term debt (excluding bonds payable) and other liabilities.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

#### **iii) Share capital**

##### *Common shares*

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

#### **iv) Derivative financial instruments, including hedge accounting**

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Toba Montrose General Partnership has designated its interest rate swap as a cash flow hedge of its variable rate debt.

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 "highly 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 80-125 percent. For a cash flow hedge of a forecasted transaction, the transaction should be highly 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 the statement of operations 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 forecasted 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 the statement of operations in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of other comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the statement of operations.

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 the statement of operations. In other cases the amount recognized in other comprehensive income is transferred to the statement of operations in the same period that the hedged item affects statement of operations.

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

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### 2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *Other derivatives and separable embedded derivatives*

Embedded derivatives are separated from the host contract and accounted for separately if (a) the economic characteristics and risks of the host contract and the embedded derivative are not closely related, (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and (c) the combined instrument is not measured at fair value through profit or loss.

Changes in the fair value of derivatives not designated in a hedge and separable embedded derivatives are recognized immediately in profit or loss.

#### **g) Inventories**

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and selling expenses. Inventories consist of supplies inventory.

#### **h) 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.

##### **ii) Subsequent costs**

The cost of replacing a component of an item of plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced component is derecognized. The costs of the day-to-day servicing of plant and equipment are recognized in the statement of operations as incurred.

##### **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%.

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

### 2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### i) Intangible assets

##### *i) 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 the statement of operations 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

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

### 2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 British Columbia Hydro and Power Authority ("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) Subsequent expenditure***

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific intangible asset to which it relates. All other expenditure is recognized in the statement of operations when incurred.

#### ***ii) Amortization***

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

Amortization is recognized in the statement of operations 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.

#### ***j) Impairment***

##### ***i) Non-derivative financial assets***

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

##### ***ii) Non-financial assets***

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each period at the same time. An impairment loss is recognized if the carrying amount of an asset or its related cash generating units ("CGU") exceeds its estimated recoverable amount.

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

### 2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together in the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Company's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognized in the statement of operations. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU or group of CGUs, and then to reduce the carrying amounts of other assets in the CGU or group of CGUs) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

#### k) Income taxes

Income tax expense is comprised of current and deferred income tax. Current tax and deferred income tax are recognized in the statement of operations 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.

Deferred 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. Deferred income 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. Deferred income 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.

Deferred income tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

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### 2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

A deferred 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. Deferred 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.

#### **l) Provisions**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

##### **i) Environmental protection practices**

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest.

The Company conducts its exploration and development activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

##### **ii) Decommissioning liability**

The Company recognizes the fair value of liabilities for decommissioning liabilities in the period in which a reasonable estimate of such costs can be made. The asset retirement obligation is recognized at fair value and recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the cost is allocated to expenses using a systematic and rational method and is also adjusted to reflect period-to-period changes in the liability resulting from passage of time and revisions to either timing or the amount of the original estimate of the undiscounted cash flow and changes in the discount rate. The fair value of the legal obligation for asset retirement is assessed each reporting period.

The Company's obligation to restore the site underlying its geothermal power plant at Soda Lake is contingent upon the cessation of operations at that location. The Company intends to continue operating this site indefinitely and has the unilateral right to renew all underlying land leases necessary to allow it to do so. Accordingly, the Company has not recorded an asset retirement obligation.

No decommissioning liability has been recognized for the Toba Montrose Facility, the Dokie Wind Farm, the Svartsengi, Reykjanes and Soda Lake geothermal facilities as the liability, due to the long service life of these assets and due to the low probability that these projects would ever be abandoned due to the renewable nature of the electricity being generated.

It is reasonably possible that our estimates of any reclamation and site restoration liabilities could change as a result of changes in regulations, the assessment of the probability of abandonment of projects or cost estimates. The effect of changes in estimated costs is recognized on a prospective basis.

The Company has not recognized any amounts in connection with asset retirement obligations.

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

### 2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### m) Revenue recognition

Revenue is recognized at the time of generation and delivery to the purchasing party as metered at the point of interconnection with the transmission system. Sales of portfolio energy credits are recognized in revenue when pervasive evidence of an arrangement for sale exists, the sale or price is fixed or determinable, title of ownership and risks of reward and loss have passed to the purchaser and collectability is reasonably assured. The portfolio of energy credits held are therefore not recognized as an asset until these criteria have been met.

Revenue is recognized from the ecoEnergy for Renewable Power (“ecoEnergy”) program (notes 6(c) and 7(c)) upon metered eligible production of power, up to a maximum of 726,950 megawatt-hour (“MWh”) for the Toba Montrose Facility and 333,000 MWh for the Dokie Wind Farm, based on a fiscal year with 365 days for a period of 10 years respectively from the commencement of commercial production.

Revenue from amortization of below market contracts recorded on the acquisition of Soda Lake and HS Orka is recognized in revenue on a straight line basis over the remaining life of the contract.

#### n) Stock-based compensation

Compensation expense for stock options granted to employees or non-employees is measured at fair value using the Black-Scholes valuation model and is recognized over the vesting period of the options granted. In situations where stock options are granted in exchange for services directly related to specific projects or properties, the expense is capitalized against that project or property. The value assigned to stock options shown on the balance sheet as contributed surplus is subsequently reduced if the options are exercised and the amount so reduced is then credited to share capital. Any values assigned to stock options that have expired remain in contributed surplus.

#### o) Foreign 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).

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

### 2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### p) Employee benefits

The Company's net obligation in respect of defined benefit multi-employer pension plans or pension fund commitment is calculated separately for each plan by estimating the amount of future benefit that current and former employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. The calculation is performed annually by qualified actuaries using a method based on earned benefits. Changes in pension fund obligation are recognized as incurred in the statement of operations.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

#### q) Income (loss) per common share

Income (loss) per share is calculated by dividing the profit or loss attributable to owners of the Company by the weighted average number of common shares issued and outstanding during the period. The Company follows the treasury stock method in the calculation of diluted earnings per share. Under this method, the weighted average number of shares includes the potential net issuances of common shares for "in-the-money" options and warrants assuming the proceeds are used to repurchase common shares at the average market price during the period, if dilutive. The effect of potential issuances of shares under options and warrants would be anti-dilutive if a loss is reported, and therefore basic and diluted losses per share are the same.

#### r) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. Operating results of all segments for which discrete financial information is available, are reviewed regularly by the Company's management to make decisions about resource allocations to the segment and to assess its performance.

#### s) Lease accounting

At inception of long-term power sales arrangements, the Company determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfillment 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 purchaser 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 that is 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 finance leases. When the Company is a lessor under finance leases the amounts due under the leases, after deduction of unearned finance income, are included in lease receivable (in the balance sheet). The finance income is recognized in finance income (in the statement of operations) over the periods of the leases so as to give a constant rate of return on the new investment in the leases.

All other leases are categorized as operating leases.

Rent from operating leases and contingent rent is recognized in the period earned and included in revenues as energy sales (in the statement of operations).

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

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### 2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### t) Financing income and costs

Finance income comprises interest income on funds invested and dividend income. Interest income is recognized as it accrues in the statement of operations, using the effective interest rate method. Dividend income is recognized in the statement of operations on the date that the Company's right to receive payment is established.

Finance costs are comprised of interest expense on borrowings and unwinding of the discount on provisions.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in the statement of operations using the effective interest method.

#### u) Future changes in accounting standards

##### i) 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.

##### ii) May 12, 2011 IASB announcement

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

- i. IFRS 10, Consolidated Financial Statements ("IFRS 10")
- ii. IFRS 11 Joint Arrangements ("IFRS 11")
- iii. IFRS 12 Disclosures of Interests 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 (revised 2011) ("IAS 28"), has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11.
- vi. IFRS 13 Fair Value Measurements

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 the standards or determined whether it will adopt the standards early.

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

### 3) BUSINESS COMBINATION – HS ORKA

On August 17, 2010, the Company obtained control of HS Orka, the largest privately-owned energy company in Iceland, by acquiring an additional 38.03% of the shares and voting interests in HS Orka. As a result, the Company's equity interest in HS Orka increased from 46.18% to 84.21%. Prior to the acquisition of control, the financial results for the Company's 46.18% ownership interest in HS Orka were reported using the equity method of accounting. This acquisition has been accounted for as a business combination. Refer to note 5 for details of subsequent additions and disposal of HS Orka shares. Since June 1, 2011 the Company has held a 75% interest of HS Orka.

#### a) Consideration transferred

The following summarizes the consideration transferred and the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

Cash paid	\$	60,469
Equity instruments (24,808,569 subscription receipts)		28,148
	<b>\$</b>	<b>88,617</b>

The fair value of the subscription receipts was based on the share price of the Company on August 17, 2010 estimated at C\$1.17 per common share.

Each subscription receipt was converted into one common share of the Company on December 20, 2010 for payment of no additional consideration.

#### b) Identifiable assets acquired and liabilities assumed

The fair value of identifiable assets acquired and assumed liabilities recognized as of August 17, 2010 are as follows:

Cash and cash equivalents	\$	5,275
Receivables		7,596
Inventory		2,873
Bonds receivable		17,936
Long term receivables		4,663
Investments in associates		22,079
Plant and equipment		317,973
Intangible assets (includes geothermal rights, development costs, etc.)		84,871
Pension obligation		(11,818)
Accounts payable and accrued liabilities		(12,307)
Long-term debt		(171,220)
Derivatives		(10,058)
Below market contracts		(29,010)
Net deferred income tax liabilities		(13,587)
	<b>\$</b>	<b>215,266</b>

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

### 3) BUSINESS COMBINATION – HS ORKA (Continued)

#### c) Goodwill recognized

Total consideration transferred	\$	88,617
Non-controlling interests, based on their proportionate interest in the fair value of the assets and liabilities of the acquiree		33,991
Fair value of previously held interest in the acquiree		107,607
Less fair value of net identifiable assets of the acquiree		(215,266)
<b>Goodwill</b>	<b>\$</b>	<b>14,949</b>

Goodwill is comprised of the value attributable to management strength and experience of developing, constructing and operating geothermal facilities in Iceland.

The non-controlling interest of \$34.0 million has been determined based on 15.79% of the fair value of HS Orka's identifiable net assets as estimated by the Company.

This business combination was achieved in stages. As such, the acquisition-date fair value of the Company's pre-acquisition 46.18% equity interest was determined to be \$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, which was recognized in other income in the consolidated statement of operations for the period ended June 30, 2011.

### 4) BUSINESS COMBINATION - PLUTONIC POWER CORPORATION

On May 13, 2011, the Company and Plutonic Power Corporation ("Plutonic") completed an arrangement agreement through which the Company acquired all of the issued and outstanding common shares of Plutonic. This acquisition was accounted for as a business combination.

#### a) Consideration transferred

The following summarizes the consideration transferred and the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

Cash paid	\$	464
Amounts accrued and cash paid subsequent to June 30, 2011		6,741
Equity instruments (150,150,621 shares of the Company)		137,884
Convertible debenture		1,930
Plutonic stock options exchanged for Company options		1,079
	<b>\$</b>	<b>148,098</b>

The fair value of the common shares issued was based on the average traded share price of the Company on May 13, 2011 of C\$0.89. The convertible debenture represents the debt between the Company and Plutonic, which was provided by the Company in March 2011.

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

### 4) BUSINESS COMBINATION - PLUTONIC POWER CORPORATION (Continued)

#### b) Identifiable assets acquired and liabilities assumed

The fair values of assets acquired and assumed liabilities recognized as of May 13, 2011 and shown below have been determined on a provisional basis pending completion of the valuations.

Cash and cash equivalents	\$	4,355
Accounts receivable and other assets		798
Investment in TMGP and DGP		56,510
Plant and equipment		164
Hydro and wind power development costs		92,690
Intangible assets		2,095
Long-term deposits		258
Accounts payable and accrued liabilities		(4,465)
Short and long-term debt		(8,259)
	\$	<b>144,146</b>

#### c) Goodwill recognized

Total consideration transferred	\$	148,098
Less fair value of net identifiable assets of the acquiree		(144,146)
Goodwill	\$	<b>3,952</b>

Goodwill is comprised of the value attributable to management strength and experience of developing and operating hydro and wind projects in British Columbia, Canada.

### 5) ACQUISITION AND DISPOSAL OF NON-CONTROLLING INTERESTS

On September 3, 2010, the Company acquired an additional 14.32% interest in HS Orka by assuming a bond with a principal value of ISK 6.3 billion (\$53.6 million) repayable in 2016 with interest at 3.5% per annum. The principal amount is indexed to movements in aluminum prices on the London Metal Exchange, subject to a cap and floor. The fair value of the bond of \$44.2 million at September 3, 2010 has been included in the purchase price calculation. The Company recognized a decrease in the non-controlling interest of \$30.1 million and an increase in deficit of \$14.0 million.

On May 23, 2011, the Company acquired an additional 1.47% interest in HS Orka for cash of ISK 475.1 million (\$4.2 million). The Company recognized a decrease in the non-controlling interest of \$3.5 million and an increase in deficit of \$0.7 million.

Concurrent with the purchase of the additional 1.47% discussed above, on June 1, 2011 the Company completed the sale of 25% of HS Orka to Jarðvarmi slhf ("Jarðvarmi"), a company owned by a group of 14 Icelandic pension funds for ISK 8.06 billion (\$70.1 million). The Company recognized a non-controlling interest of \$53.8 million and a reduction in deficit of \$16.2 million.

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%.

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

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### 6) INVESTMENT IN TOBA MONTROSE GENERAL PARTNERSHIP

- a) The Company holds a 51% non-participating and voting interest in the partnership and 40% non-voting and participating interest in TMGP. After 35 years of operations, the Company's economic interest will increase to 51% for no additional consideration and its partner's economic interest in TMGP will decrease from 60% to 49%.
- b) The Company's economic interest in the assets, liabilities, revenue and expenses and cash flows of TMGP is accounted for under the equity method of accounting, including fair value adjustments assumed on the acquisition of Plutonic by the Company (note 4), in these condensed consolidated interim financial statements as follows:

<b>Investment in TMGP</b>		
Investment at May 13, 2011	\$	33,401
Share of equity comprehensive income		2,956
Foreign exchange impact		313
Investment at June 30, 2011		36,670
Share of equity comprehensive income		4,464
Foreign exchange impact		(3,215)
<b>Investment at September 30, 2011</b>	<b>\$</b>	<b>37,919</b>

		<b>Three months ended September 30, 2011</b>	<b>May 13 to June 30, 2011</b>
Share of income of TMGP	\$	11,536	3,331
Share of other comprehensive loss of TMGP	\$	(7,072)	\$(375)

The movement in the Company's share of comprehensive income (loss) relates to the effective portion of TMGP's interest rate swap contract.

The Company's 40% proportionate share in the assets, liabilities, revenue and expenses of TMGP is as follows:

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

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### 6) INVESTMENT IN TOBA MONTROSE GENERAL PARTNERSHIP (Continued)

	September 30, 2011		June 30, 2011	
Cash and cash equivalents	\$	15,508	\$	4,476
Trade and other receivables		5,819		5,332
Prepaid expenses		1,723		1,759
Plant and equipment		213,859		233,575
Intangible assets		5,167		5,643
Other assets		143		156
		242,219		250,941
Accounts payable and accrued liabilities	\$	2,974	\$	2,444
Other liabilities		636		167
Long-term debt		179,936		195,350
Interest rate swaps		20,754		16,310
		204,300		214,271
Net assets	\$	37,919	\$	36,670

  

	Three months ended		September 30, 2011		May 13 to June 30, 2011	
Revenue	\$	17,339	\$	6,411		
Production and cost of sales		(3,264)		(743)		
Interest expense		(3,016)		(1,575)		
Other expenses		(398)		(760)		
Unrealized gain (loss) on interest rate swaps		875		(2)		
Share of TMGP income for the period	\$	11,536	\$	3,331		

- c) In 2010, TMGP was awarded an EcoLogo certificate and became eligible to start receiving funding under the ecoEnergy program, which is a Government of Canada program that provides incentive funding to increase Canada's supply of electricity from renewable sources, including low-impact hydro projects such as the Toba Montrose Facility. TMGP is entitled to receive up to C\$72.8 million in funding under the ecoEnergy program during its first ten years of operations based on C\$10 per MWh of electricity generated by Toba Montrose and sold to BC Hydro.

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

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### 7) INVESTMENT IN DOKIE GENERAL PARTNERSHIP

- a) The Company holds a 51% participating and voting interest in the partnership.
- b) The Company's economic interest in the assets, liabilities, revenue and expenses and cash flows of DGP is accounted for under the under equity method, including fair value adjustments assumed on the acquisition of Plutonic by the Company (note 4), in these condensed consolidated interim financial statements as follows:

<b>Investment in DGP</b>		
Investment at May 13, 2011	\$	23,109
Share of equity income		(1,278)
Foreign exchange impact		52
Investment at June 30, 2011		21,883
Share of equity income		267
Foreign exchange impact		(1,765)
<b>Investment at September 30, 2011</b>	<b>\$</b>	<b>20,385</b>

	<b>Three months ended</b>	<b>May 13 to June 30,</b>
	<b>September 30, 2011</b>	<b>2011</b>
Share of income (loss) of DGP	267	(1,278)
Share of other comprehensive income (loss) of DGP	-	-

The Company's 51% proportionate share in the assets, liabilities, revenue and expenses of DGP is as follows:

# Alterra Power Corp.

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### 7) INVESTMENT IN DOKIE GENERAL PARTNERSHIP (Continued)

	September 30, 2011		June 30, 2011	
Cash and cash equivalents	\$	1,817	\$	928
Restricted cash		973		2,296
Trades and other receivables		2,318		1,405
Prepaid expenses		539		796
Lease receivable		-		-
Plant and equipment		953		109
Intangible assets		104,386		114,641
		110,986		120,175
Accounts payable and accrued liabilities		1,228		961
Other liabilities		368		272
Long-term debt		89,005		97,059
		90,601		98,292
Net assets	\$	20,385	\$	21,883
		Three months ended September 30, 2011		May 13 to June 30, 2011
Revenue	\$	5,681	\$	1,477
Production and cost of sales		(3,282)		(1,767)
Interest expense		(1,592)		(832)
Other expenses		(540)		(156)
Share of DGP income (loss) for the period	\$	267	\$	(1,278)

- c) In February 2011, DGP was awarded an EcoLogo certificate and became eligible to start receiving funding under the ecoEnergy program. DGP will be entitled to receive up to C\$33.3 million in funding under the ecoEnergy program 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.
- d) DGP entered into a 25 year PPA with BC Hydro to supply all the electricity generated by the Dokie Wind Farm to BC Hydro. Completion of construction and sale of electricity to BC Hydro commenced in February 2011. As this PPA is determined to fall within IFRIC 12, the costs associated with the construction of this project have been re-classified as an intangible asset. As at September 30, 2011, DGP recorded an amount of \$200.0 million in its books, of which the Company's proportionate interest is \$102.0 million.

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

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### 8) OTHER INVESTMENTS

	September 30, 2011		June 30, 2011		July 1, 2011
HS Orka hf	\$ -	\$	-	\$	103,801
Blue Lagoon hf	22,986		22,842		-
Other	239		237		-
	\$ 23,225	\$	23,079	\$	103,801

The Company, through HS Orka, holds a 24.36 to 31.36% in the Blue Lagoon hf. related companies. The Company equity accounts for this investment. During the three month period ended September 30, 2011, the Company recorded equity income of \$1.0 million related to the Blue Lagoon hf. (3 months ended September 30, 2010: \$0.4 million).

### 9) GEOTHERMAL DEVELOPMENT COSTS

As at September 30, 2011 the Company holds geothermal properties, or the rights to acquire geothermal properties, in the United States of America, Canada, Chile, Peru, Iceland and Italy.

The Company was awarded two geothermal leases in Italy (Mensano and Roccastrada) in March 2011. Exploration is expected to commence on the properties in fiscal year 2012.

The Company's expenditures on geothermal development properties in the three months ended September 30, 2011 are as follows:

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

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### 9) GEOTHERMAL DEVELOPMENT COSTS (Continued)

	Balance June 30, 2011	Acquisition Costs	Deferred Exploration Costs	Depletion	Effect of Reporting Currency Translation	Cost Written Off	Balance September 30, 2011
<b>USA - Nevada</b>							
McCoy	\$ 7,973	\$ -	\$ 61	\$ -	\$ -	\$ -	\$ 8,034
Desert Queen	3,276	-	27	-	-	-	3,303
Dixie Valley (White Rock Canyon)	20	-	9	-	-	(29)	-
Granite Springs	539	-	58	-	-	-	597
Hawthorne	809	-	2	-	-	-	811
<b>USA - Utah</b>							
Thermo	572	-	2	-	-	-	574
<b>Chile</b>							
Maule	18,948	-	246	-	(1,508)	-	17,686
Pellado	4,752	-	32	-	(383)	-	4,401
El Medeno	2,115	-	10	-	(170)	-	1,955
Tres Puntas	62	-	16	-	(6)	-	72
Los Cristales	70	-	10	-	(6)	-	74
<b>Peru</b>							
Huaynaputina	145	-	4	-	(12)	-	137
Casiri	147	-	4	-	(12)	-	139
Sabancaya	145	-	5	-	(13)	-	137
Ccollo	145	-	4	-	(12)	-	137
Ticsani	149	-	4	-	(12)	-	141
San Pedro	49	-	5	-	(4)	-	50
Crucero	178	-	9	-	(15)	-	172
Pinchollo	10	-	4	-	(1)	-	13
Ancoccollo	39	-	4	-	(29)	-	14
Pasto	41	-	5	-	(4)	-	42
Sara Sara	48	-	5	-	(4)	-	49
Loriscota	56	-	9	-	(5)	-	60
Monterrey	36	-	7	-	(3)	-	40
Yungay	42	-	5	-	(4)	-	43
Atarani	-	-	4	-	-	-	4
Panejo	-	-	1	-	-	-	1
<b>Italy</b>							
Mensano	-	-	101	-	(7)	-	94
	40,366	-	653	-	(2,210)	(29)	38,780
<b>Geothermal property in production</b>							
Iceland - Geothermal property rights and development costs	86,523	-	-	(136)	(3,328)	-	83,059
USA - Soda Lake	3,165	-	84	(10)	-	-	3,239
	\$ 130,054	\$ -	\$ 737	\$ (146)	\$ (5,538)	\$ (29)	\$ 125,078

The Company owns 100% of its geothermal properties in USA, Canada, Peru, Iceland, Italy and Chile.

#### a) USA

During the period from August 2008 to September 2009, the Company acquired a number of geothermal leases; such leases are generally for a ten year primary period and require annual lease payments in order to maintain the leases in good standing. The term of the lease may be extended at the end of the primary period, at the sole discretion of the Company.

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

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### 9) GEOTHERMAL DEVELOPMENT COSTS (Continued)

#### b) Chile

On May 28, 2008, the Company entered into a non-binding MOU and on September 24, 2008, entered into a formal agreement, to acquire four geothermal exploration concessions from the University of Chile for \$600,000 and the Company contributed \$0.2 million to the University of Chile to finance projects of mutual interest in the geothermal field. One of the concessions consisting of 98,800 acres comprising the Maule property is located in the Laguna Del Maule area, approximately 290 km south of Santiago. The remaining three concessions, consisting of approximately 53,200 hectares comprising the Carrán Property, are located in the Puyehue area, approximately 760 km south of Santiago. In July 2009, the Company terminated its right to acquire the Carrán Property and, accordingly, wrote off \$1.1 million of acquisition and development costs incurred on the property as at June 30, 2009.

In January 2010, the Company was awarded the Pellado property consisting of 100,000 hectares located adjacent to the Company's Maule property in Chile. In May 2010, an exploitation permit was issued on the Maule property.

The Company was awarded the Los Cristales and Tres Puntas geothermal exploration 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 and is served by a 220 kV transmission line. The Tres Puntas property is a 90,000 hectare concession located in the Atacama Region, 800 km north of Santiago and 70 km east of the city of El Salvador.

#### c) Peru

In April 2011, the Company was awarded the Crucero and Loriscota concessions. The Crucero and Loriscota geothermal concessions are located 50 km northwest of the town of Candarave.

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

#### d) 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. The Trölladyngja geothermal field is a sub-field in the northern part of the Krýsuvík geothermal area.

#### e) Canada

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.

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

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### 10) HYDRO AND WIND DEVELOPMENT COSTS

	Upper Toba Valley Project	Bute Inlet Project	Other Hydro Development Projects	Total Hydro Development Projects	Dokie Wind Expansion Project
Balance, May 13, 2011	\$ 18,361	\$ 52,544	\$ 3,149	\$ 74,054	\$ 18,636
Engineering and hydrology	3	39	1	43	-
Permitting	8	-	-	8	-
Community consultations	-	1	-	1	-
Project development costs written-off	-	-	(92)	(92)	-
Foreign exchange movement	83	236	14	333	84
Total cost since May 13, 2011	94	276	(77)	293	84
Balance, June 30, 2011	\$ 18,455	\$ 52,820	\$ 3,072	\$ 74,347	\$ 18,720

	Upper Toba Valley Project	Bute Inlet Project	Other Hydro Development Projects	Total Hydro Development Projects	Dokie Wind Expansion Project
Balance, June 30, 2011	\$ 18,455	\$ 52,820	\$ 3,072	\$ 74,347	\$ 18,720
Engineering and hydrology	32	88	33	153	228
Community consultations	-	1,462	-	1,462	-
Foreign exchange movement	(1,334)	(4,274)	(257)	(5,865)	(1,567)
Total cost since June 30, 2011	(1,302)	(2,724)	(224)	(4,250)	(1,339)
Balance, September 30, 2011	\$ 17,153	\$ 50,096	\$ 2,848	\$ 70,097	\$ 17,381

The Company holds the rights to 35 run-of-river hydroelectric power development projects located primarily in the southwestern region of BC. 29 of the projects are located within the Company's Green Power Corridor™, an area in southwest coastal BC that includes drainages flowing into the Toba, Bute and Knight inlets.

The Company's principal hydro and wind development projects are as follows:

#### a) Upper Toba Valley Project

The Company and an affiliate of GE EFS jointly bid the Upper Toba Valley Project into the BC Hydro 2008 Request For Proposals in November 2008. In March 2010, BC Hydro offered Plutonic and GE a PPA for a modified Upper Toba Valley Project. Plutonic and GE modified the Upper Toba Valley Project to include two power sites with an expected average annual generation of 340,000 to 350,000 MWh of electricity. This represents a modification from the original bid of three power sites. The Dagleish power site was removed from Plutonic's and GE's joint bid during discussions with BC Hydro to address capacity constraints identified by on their transmission line between Saltery Bay and Malaspina. The Dagleish power site remains a potentially viable standalone project should the BC Hydro transmission line constraints between Saltery Bay and Malaspina be removed in the future. In April 2010, Plutonic and GE jointly entered into a 40 year PPA with BC Hydro for the modified Upper Toba Valley Project.

With the change in size of the Upper Toba Valley Project, the Company and GE are in the process of updating an assessment of the project.

The three power sites are located on tributaries of the Toba River, close to the Toba Montrose Facility. Subject to a priority use agreement, the Company has the right to use the currently unused capacity of the transmission line owned by TMGP for the Upper Toba Valley Project.

# Alterra Power Corp.

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### 10) HYDRO AND WIND DEVELOPMENT COSTS (Continued)

#### b) Bute Inlet Project

As part of the Plutonic acquisition in May 2011, the Company acquired 17 power projects in the Bute Inlet. 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 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 jointly submitted the Bute Inlet Project into a BC Hydro call for power, however in March 2010 they announced 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. The Company remains committed to the development of the project, and will continue with cost-effective work necessary to advance the project in a manner consistent with the high standards set by governments.

#### c) Other hydro development projects

The Company has a number other run of river power development sites with a combined potential annual generation of approximately 1.8 million MWh of electricity. These development power sites are located primarily in the southwestern region of BC. The Company continues to collect hydrological data, conduct engineering work and perform other studies on these sites.

During 2010, the application for a water license and Crown Land tenure was accepted by the Ministry of Environment and Integrated Land Business Bureau for a 1,000 MW pumped storage site in southwestern British Columbia.

#### d) Dokie Wind Expansion Project

In 2009, Plutonic and GE acquired the rights to the expansion of the existing Dokie Wind Farm ("Dokie Wind Expansion Project) and subsequent to the acquisition of Plutonic, the Company and GE's interest in these rights are 51% and 49% respectively. The Company and GE are preparing an assessment of the Dokie Wind Expansion Project to be completed during 2012. The Dokie Wind Expansion Project holds a BC Provincial Environmental Assessment Certificate, however, amendments to the certificate may be required depending on the results of the wind resource assessment.

### 11) GOODWILL

HS Orka acquisition - August 17, 2010 (note 3)	\$	14,949
Plutonic acquisition - May 13, 2011 (note 4)		3,952
Foreign exchange movement from acquisition dates		635
Balance, June 30, 2011		19,536
Foreign exchange movement		(916)
Balance, September 30, 2011	\$	18,620

# Alterra Power Corp.

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### 12) PENSION ARRANGEMENTS

Following acquisition of a controlling interest in HS Orka on August 17, 2010, the Company consolidates the results of HS Orka. Previously, in accordance with Canadian GAAP, the HS Orka multi-employer defined benefit pension arrangements had been accounted for as defined contribution plans. As such, the HS Orka 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.

HS Orka shares certain employees with a third party, HS Veitur hf., and the two companies share the funding of the HS Orka's pension plans. HS Orka has recognized HS Veitur hf.'s share of the pension obligation and a corresponding long term receivable from HS Veitur hf. (\$1.3 million at September 30, 2011).

According to actuaries' assessments, the Company's accrued pension obligation amounted to \$13.0 million at September 30, 2011 (June 30, 2011 – \$13.1 million), discounted based on an interest rate of 2%, taking into account the share in the net asset of the pension fund. The estimated increase in the obligation during the period is based on general salary increase taken into account interests.

HS Veitur hf.'s share in the \$0.5 million increase in pension fund obligation during the period amounted to \$0.2 million.

Movement in the pension fund obligation:

Pension fund obligation August 17, 2010	\$	11,818
Contributions during the period		(506)
Increase in obligation due to interest, salaries and change in funds net assets		1,343
Foreign exchange movement		412
Pension fund obligation June 30, 2011		13,067
Contributions during the period		(102)
Increase in obligation due to interest, salaries and change in funds net assets		491
Foreign exchange movement		(431)
<b>Pension fund obligation September 30, 2011</b>	<b>\$</b>	<b>13,025</b>

Pension fund obligations are as follows:

The pension fund for State employees		6,943
The pension fund for Municipality of Hafnarfjörður employees		3,657
The pension fund for Municipality of Vestman Islands employees		2,425
<b>Pension fund obligation September 30, 2011</b>	<b>\$</b>	<b>13,025</b>

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### 13) LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

At September 30, 2011, long-term debt was comprised of the following:

	September 30, 2011		June 30, 2011		June 30, 2010
Bonds (a)	\$ 110,625	\$	115,324	\$	49,339
Credit agreement (b)	3,602		22,810		-
HS Orka loans (c)	161,569		175,499		-
Capital lease obligations	51		59		80
	<u>275,847</u>		<u>313,692</u>		<u>49,419</u>
Less current portion:					
Debt	22,166		18,819		-
Capital lease obligations	9		9		23
	<u>22,175</u>		<u>18,828</u>		<u>23</u>
Long-term portion	<u>\$ 253,672</u>	\$	<u>294,864</u>	\$	<u>49,396</u>

#### a) Bonds

The movement in the bond value during the three month period ended September 30, 2011 was as follows:

Balance, June 30, 2011	\$ 115,324
Change in fair value (note 19)	2,660
Foreign exchange gain	(7,359)
Balance, September 30, 2011	<u>\$ 110,625</u>

The assumptions used in determining the fair values of the bonds at September 30, 2011 and June 30, 2011 are as follows:

	September 30, 2011	June 30, 2011
Discount rates	8.03% - 11.32%	7.80% - 11.70%
Aluminum prices (\$ per tonne)	\$2,167 - \$2,612	\$2,581 - \$2,769

#### b) Credit agreement

During the year ended June 30, 2011, the Company expanded its credit agreement to borrow up to C\$20 million with interest at the rate of 8% per annum with a repayment date of July 31, 2012 (see note 15 Related Party Transactions).

#### c) HS Orka's loans

The Company's minimum principal payments over the next five years and thereafter are as follows:

12 month period ended September 30:	
2012	\$ 18,570
2013	18,730
2014	18,896
2015	19,069
2016	19,250
Thereafter	<u>71,839</u>

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

# Alterra Power Corp.

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### 13) LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS (Continued)

#### a) HS Orka's loans (continued)

The Company's subsidiary HS Orka hf 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 October 1, 2012, as the forecasted amounts used in the projected covenant calculations are sensitive to the future price of aluminium. 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 within the calculation, HS Orka would not be in compliance with the covenant. The Company is in discussions with lenders regarding this debt covenant.

### 14) SHARE CAPITAL

#### a) Capital stock

At September 30, 2011, the Company had unlimited authorized common shares without par value and 465,116,280 common shares issued and outstanding (June 30, 2011 – 465,116,280, July 1, 2010 – 248,637,974).

On December 20, 2010, the Company issued 24,808,569 common shares in exchange for the subscription receipts issued in relation to the acquisition of HS Orka (see note 3 Business Combination – HS Orka).

On May 13, 2011, the Company issued 150,150,621 common shares for the conversion of shares of Plutonic at a ratio of 2.38:1 (see note 4 Business Combination - Plutonic Power Corporation).

#### b) Stock options

Under the Company's stock option plan, the board of directors may grant options for the purchase of up to a total of 10% of the total number of issued and outstanding common shares of the Company. Options granted under the plan vest over time at the discretion of the board of directors. Exercise prices on options granted under the plan are determined by reference to the market value on the date of the grant.

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

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### 14) SHARE CAPITAL (Continued)

#### b) Stock options (continued)

The changes in stock options issued are as follows:

	<u>30-Sep-11</u>	
	Number of options	Weighted average exercise price (C\$/option)
Outstanding, June 30, 2011	15,314,569	1.69
Granted	-	-
Exercised	-	-
Forfeited	<u>(1,600,054)</u>	<u>1.41</u>
Outstanding, September 30, 2011	<u>13,714,515</u>	<u>1.73</u>
Exercisable, September 30, 2011	<u>10,871,783</u>	<u>1.82</u>

As of September 30, 2011, incentive stock options represent 3.3% (June 30, 2011 – 3.3%, July 1, 2010 – 1.3%) of issued and outstanding common capital. The aggregate intrinsic value of vested share options (the market value less the exercise value) at September 30, 2011 is nil (June 30, 2011 and July 1, 2010 - nil).

For the three months ended September 30, 2011, there were no options granted. For the three months ended September 30, 2010, 150,000 options were granted at a weighted average fair value of \$0.31.

The allocation of the amortization of the fair value of options is as follows:

	<u>Three Months Ended September 30, 2011</u>	<u>Three Months Ended September 30, 2010</u>
<b>Balance Sheets</b>		
Geothermal development costs	\$ 1	\$ 15
Hydro and wind development costs	-	-
	<u>1</u>	<u>15</u>
<b>Statements of Operations</b>		
Production and cost of sales	16	7
General and administrative	52	70
Property investigations	1	3
Investor relations	3	22
Foreign exchange	21	-
	<u>93</u>	<u>102</u>
<b>Total amortization of stock option fair value</b>	<u>\$ 94</u>	<u>\$ 117</u>

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

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(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

### 15) RELATED PARTY TRANSACTIONS

During the three months ended September 30, 2011 the Company repaid the \$22.8 million funding provided by the Company's Chairman in full. A new credit agreement was entered into on July 25, 2011, pursuant to which the Company is able to borrow up to C\$20 million. Interest at the rate of 8% per annum, compounded daily, and payable monthly. In addition, a standby fee in the amount of 1% of the credit facility and a drawdown fee in the amount of 1.5% of the amount advanced is payable in cash. As at September 30, 2011, \$4.0 million of the principal amount has been advanced to the Company. During the three months ended September 30, 2011 interest, standby and drawdown fees totaling \$0.4 million were paid.

### 16) COMMITMENTS AND CONTINGENCIES

The Company has entered into various lease and contractual commitments that require minimum payments in the aggregate as follows:

Fiscal 2012	\$	4,590
Fiscal 2013		4,235
Fiscal 2014		4,197
Fiscal 2015		4,161
Fiscal 2016		4,196
Thereafter		23,445
<b>Total commitments</b>	<b>\$</b>	<b>44,824</b>

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 in July 2010 to determine the validity of the PPA, and a hearing took place in May 2011. A tribunal conclusion is expected in November 2011.

### 17) SEGMENTED DISCLOSURES

The Company has four business segments:

- The exploration and development of renewable generation properties;
- Geothermal operations;
- Hydro operations; and
- Wind operations.

Revenues during the three months ended September 30, 2011 were generated from our two geothermal plants in Iceland and one geothermal plant in the USA. For the comparative three month period ended September 30, 2010, revenues were generated from one geothermal plant in the USA and two geothermal plants in Iceland for the period from acquisition on August 17, 2010 (see note 3). During the three month period ended September 30, 2011 only, the Company equity accounted for the investment in two run of river facilities and one wind farm in Canada.

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

### 17) SEGMENTED DISCLOSURES (Continued)

	30-Sep-11					30-Jun-11				
	Exploration and development	Production and Sales Geothermal	Hydro	Wind	Total	Exploration and development	Production and Sales Geothermal	Hydro	Wind	Total
<b>CANADA</b>										
Current assets	\$ 3,312	\$ -	\$ -	\$ -	\$ 3,312	\$ 35,523	\$ -	\$ -	\$ -	\$ 35,523
Plant and equipment	155	-	-	-	155	195	-	-	-	195
Equity investments	-	-	37,919	20,385	58,304	-	-	36,670	21,884	58,554
Other assets	89,646	-	-	-	89,646	100,833	-	-	-	100,833
	<b>93,113</b>	<b>-</b>	<b>37,919</b>	<b>20,385</b>	<b>151,417</b>	<b>136,551</b>	<b>-</b>	<b>36,670</b>	<b>21,884</b>	<b>195,105</b>
<b>USA</b>										
Current assets	586	1,827	-	-	2,413	365	1,599	-	-	1,964
Plant and equipment	121	38,260	-	-	38,381	145	38,277	-	-	38,422
Geothermal properties	13,319	3,242	-	-	16,558	13,189	3,165	-	-	16,354
Other assets	82	11	-	-	93	82	12	-	-	94
	<b>14,108</b>	<b>43,340</b>	<b>-</b>	<b>-</b>	<b>57,445</b>	<b>13,781</b>	<b>43,053</b>	<b>-</b>	<b>-</b>	<b>56,834</b>
<b>CHILE</b>										
Current assets	658	-	-	-	658	698	-	-	-	698
Plant and equipment	486	-	-	-	486	582	-	-	-	582
Geothermal properties	24,189	-	-	-	24,188	25,947	-	-	-	25,947
Other assets	17	-	-	-	17	22	-	-	-	22
	<b>25,350</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>25,349</b>	<b>27,249</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>27,249</b>
<b>PERU</b>										
Current assets	4	-	-	-	4	26	-	-	-	26
Plant and equipment	3	-	-	-	3	2	-	-	-	2
Geothermal properties	1,179	-	-	-	1,179	1,230	-	-	-	1,230
Other assets	1	-	-	-	1	-	-	-	-	-
	<b>1,187</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,187</b>	<b>1,258</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,258</b>
<b>ARGENTINA</b>										
Current assets	8	-	-	-	8	8	-	-	-	8
<b>ITALY</b>										
Current assets	271	-	-	-	271	197	-	-	-	197
Plant and equipment	40	-	-	-	40	-	-	-	-	-
Geothermal properties	90	-	-	-	94	-	-	-	-	-
	<b>401</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>405</b>	<b>197</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>197</b>
<b>SWEDEN</b>										
Current assets	13	-	-	-	13	15	-	-	-	15
<b>ICELAND</b>										
Current assets	14,728	22,360	-	-	37,088	19,922	32,961	-	-	52,883
Plant and equipment	85	314,293	-	-	314,378	100	329,012	-	-	329,112
Geothermal properties	83,059	-	-	-	83,059	86,523	-	-	-	86,523
Intangibles	-	1,351	-	-	1,351	-	1,386	-	-	1,386
Other assets	-	51,449	-	-	51,449	-	64,553	-	-	64,553
	<b>97,871</b>	<b>389,453</b>	<b>-</b>	<b>-</b>	<b>487,325</b>	<b>106,545</b>	<b>427,912</b>	<b>-</b>	<b>-</b>	<b>534,457</b>
<b>Total Assets</b>	<b>\$ 232,051</b>	<b>\$ 432,793</b>	<b>\$ 37,919</b>	<b>\$ 20,385</b>	<b>\$ 723,149</b>	<b>\$ 285,604</b>	<b>\$ 470,965</b>	<b>\$ 36,670</b>	<b>\$ 21,884</b>	<b>\$ 815,123</b>

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

### 17) SEGMENTED DISCLOSURES (Continued)

	3 months ended 30 Sept 2011				
	Exploration and development	Geothermal Production and Sales	Hydro Production and Sales	Wind Production and Sales	Total
<b>Revenue</b>					
Energy sales	\$ -	\$ 17,009	\$ -	\$ -	\$ 17,009
<b>Cost of Sales</b>	-	(12,153)	-	-	(12,153)
<b>Gross profit</b>	-	4,856	-	-	4,856
<b>Expenses</b>					
General and administrative	3,213	-	-	-	3,213
Professional fees	328	-	-	-	328
Amortization	463	-	-	-	463
General exploration	236	-	-	-	236
Investor relations	140	-	-	-	140
Depletion and accretion	47	-	-	-	47
	4,427	-	-	-	4,427
<b>Other (Income) expenses</b>					
Equity income	-	(1,000)	(11,536)	(267)	(12,803)
Change in fair value of long-term debt	-	(2,660)	-	-	(2,660)
Change in fair value of derivatives	-	24,293	-	-	24,293
Interest and other financing costs	-	2,885	-	-	2,885
Geothermal development costs written-off	-	(6)	-	-	(6)
Interest and other income	-	(286)	-	-	(286)
Other (gains) losses	-	-	-	-	-
Foreign exchange loss	7,606	(3,099)	-	-	4,507
Loss on remeasurement of HS Orka	-	-	-	-	-
	7,606	20,127	(11,536)	(267)	15,930
<b>Income (loss) before income taxes</b>	(12,033)	(15,271)	11,536	267	(15,501)
Future income tax expense (recovery)	-	(4,084)	-	-	(4,084)
<b>Income (loss) for the period</b>	<b>\$ (12,033)</b>	<b>\$ (11,187)</b>	<b>\$ 11,536</b>	<b>\$ 267</b>	<b>\$ (11,417)</b>

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

### 17) SEGMENTED DISCLOSURES (Continued)

	3 months ended 30 Sept 2010		
	Geothermal Exploration	Geothermal Production and Sales	Total
<b>Revenue</b>			
Energy sales	\$ -	\$ 8,325	\$ 8,325
<b>Cost of Sales</b>	-	(6,508)	(6,508)
<b>Gross profit</b>	-	1,817	1,817
<b>Expenses</b>			
General and administrative	1,375	-	1,375
Professional fees	974	-	974
Amortization	47	381	428
General exploration	329	-	329
Investor relations	129	-	129
Depletion and accretion	-	234	234
	<u>2,854</u>	<u>615</u>	<u>3,469</u>
<b>Other (Income) expenses</b>			
Equity income	-	(8,392)	(8,392)
Change in fair value of long-term debt	-	5,644	5,644
Change in fair value of derivatives	-	(13,282)	(13,282)
Interest and other financing costs	-	2,427	2,427
Interest and other income	(329)	-	(329)
Other (gains) losses	170	-	170
Foreign exchange loss	(5,203)	(1,324)	(6,527)
Loss on remeasurement of HS Orka	-	9,805	9,805
	<u>(5,362)</u>	<u>(5,122)</u>	<u>(10,484)</u>
<b>Loss before income taxes</b>	2,508	6,324	8,832
Future income tax expense (recovery)	-	2,870	2,870
<b>Income (loss) for the period</b>	<u>\$ 2,508</u>	<u>\$ 3,454</u>	<u>\$ 5,962</u>

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

### 18) GENERAL AND ADMINISTRATIVE

The following is a breakdown of the Company's general and administrative expenses for the three months ended September 30, 2011 and 2010:

	<u>30-Sep-11</u>	<u>30-Sep-10</u>
General and administrative	\$ (3,213)	\$ (1,375)
Investor relations	(140)	(129)
Professional fees	(329)	(974)
Amortization	(461)	(428)
Depletion and accretion	(49)	(234)
	<u>\$ (4,192)</u>	<u>\$ (3,140)</u>

### 19) OTHER GAINS AND LOSSES

The following is a breakdown of the Company's other gains and losses for the three months ended September 30, 2011 and 2010:

	<u>30-Sep-11</u>	<u>30-Sep-10</u>
Change in fair value of long-term debt	\$ 2,660	\$ (5,644)
Change in fair value of derivatives	(24,293)	13,282
Foreign exchange gain (loss)	(4,506)	6,527
Loss on remeasurement of equity interest in HS Orka	-	(9,805)
Other	6	(170)
	<u>\$ (26,133)</u>	<u>\$ 4,190</u>

### 20) SUPPLEMENTARY CASH FLOW INFORMATION

	<u>30-Sep-11</u>	<u>30-Sep-10</u>
Trade and other receivables	\$ 391	(687)
Inventories	(32)	(91)
Prepaid expenses	66	(46)
Accounts payable and accrued liabilities	1,960	6,299
	<u>\$ 2,385</u>	<u>\$ 5,475</u>

### 21) FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company adopted IFRS on July 1, 2011 with a transition date of July 1, 2010. Under IFRS 1 *First-time Adoption of International Financial Reporting Standards*, the IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under Canadian GAAP taken to retained earnings unless certain exemptions are applied. IFRS provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

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### 21) FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

#### a) *IFRS exemption options*

Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

##### *Business combinations*

The Company has elected to apply IFRS 3, *Business Combinations*, prospectively to business combinations that occur after the date of transition. The Company has elected this exemption under IFRS 1, which removes the requirement to retrospectively restate all business combinations prior to the date of transition to IFRS.

##### *Cumulative translation differences*

The Company has elected to apply the IFRS 1 exemption whereby cumulative foreign currency translation differences included in accumulated other comprehensive income are reset to zero at the transition date.

##### *Share-based payments*

IFRS 1 permits the application of IFRS 2, *Share Based Payments* only to equity instruments granted after November 7, 2002 that had not vested by the date of transition to IFRS. The Company has applied this exemption and will apply IFRS 2 for equity instruments granted after November 7, 2002 that had not vested by July 1, 2010.

#### b) *Reconciliations*

The adoption of IFRS has resulted in changes to the Company's reported financial position and results of operations.

In order to allow the users of the financial statements to better understand these changes, the financial statements previously presented under Canadian GAAP have been reconciled to IFRS. For a description of the changes, see the discussion in the notes to the IFRS Reconciliations below.

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

### 21) FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

#### b) Reconciliations (continued)

The July 1, 2010 Canadian GAAP ("CGAAP") consolidated balance sheet has been reconciled to IFRS as follows:

	CGAAP July 1, 2010	(i) Currency adj	(ii) Income tax	(iii) Pension	IFRS July 1, 2010
<b>Assets</b>					
<b>Current</b>					
Cash and cash equivalents	\$ 25,343	\$ -	\$ -	\$ -	\$ 25,343
Trade and other receivables	728	-	-	-	728
Prepaid expenses	483	8	-	-	491
	<u>26,554</u>	<u>8</u>	<u>-</u>	<u>-</u>	<u>26,562</u>
Plant and equipment	35,371	(281)	-	-	35,090
Geothermal properties	32,128	(318)	(154)	-	31,656
Investments	103,828	-	-	(27)	103,801
Other assets	822	-	-	-	822
	<u>\$ 198,703</u>	<u>\$ (591)</u>	<u>\$ (154)</u>	<u>\$ (27)</u>	<u>\$ 197,931</u>
<b>Liabilities and shareholders' equity</b>					
Accounts payable and accrued liabilities	\$ 5,105	\$ -	\$ -	\$ -	\$ 5,105
Current portion of long-term debts and capital lease obligations	23	-	-	-	23
	<u>5,128</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,128</u>
Long-term debts and capital lease obligations	49,396	-	-	-	49,396
Deferred revenue	2,109	4	-	-	2,113
	<u>56,633</u>	<u>4</u>	<u>-</u>	<u>-</u>	<u>56,637</u>
<b>Equity</b>					
Share capital	153,403	-	-	-	153,403
Contributed surplus	974	-	-	-	974
Accumulated other comprehensive income	10,110	(10,110)	-	-	-
Deficit	(22,417)	9,515	(154)	(27)	(13,083)
	<u>142,070</u>	<u>(595)</u>	<u>(154)</u>	<u>(27)</u>	<u>141,294</u>
	<u>\$ 198,703</u>	<u>\$ (591)</u>	<u>\$ (154)</u>	<u>\$ (27)</u>	<u>\$ 197,931</u>

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

### 21) FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

#### b) Reconciliations (continued)

The Canadian GAAP statement of operations for the three months ended September 30, 2010 has been reconciled to IFRS as follows:

	Note a	(i)	(iii)	(iv)	(viii)	
	CGAAP	Currency adj	Pension	Depreciation	Reclassification	IFRS
	Sept 30 2010					Sept 30 2010
<b>Revenues</b>						
Energy sales	\$ 8,367	\$ -	\$ (42)	\$ -	\$ -	\$ 8,325
Total production and cost of sales	6,523	-	(60)	45	-	6,508
Depreciation	-	-	-	-	-	-
Gross profit	1,844	-	18	(45)	-	1,817
<b>Expenses</b>						
General and administrative	1,347	-	28	-	1,765	3,140
Professional fees	974	-	-	-	(974)	-
Amortization	428	-	-	-	(428)	-
General exploration	329	-	-	-	-	329
Investor relations	129	-	-	-	(129)	-
Depletion and accretion	234	-	-	-	(234)	-
	3,441	-	28	-	-	3,469
<b>Other income (expense)</b>						
Equity income	8,399	-	(7)	-	-	8,392
Change in fair value of long-term debt	(5,644)	-	-	-	5,644	-
Change in fair value of derivatives	13,282	-	-	-	(13,282)	-
Finance costs	(2,427)	-	-	-	-	(2,427)
Finance income	329	-	-	-	-	329
Foreign exchange gain	6,148	379	-	-	(6,527)	-
Loss on remeasurement of equity interest	(9,812)	-	7	-	9,805	-
Gain on purchase	-	-	-	-	-	-
Geothermal property costs written-off	(170)	-	-	-	170	-
Other gains / (losses)	-	-	-	-	4,190	4,190
	10,105	379	-	-	-	10,484
Income (loss) before income taxes	8,508	379	(10)	(45)	-	8,832
Deferred income taxes recovery (expense)	(2,879)	-	2	7	-	(2,870)
Income (loss) for the period	\$ 5,629	\$ 379	\$ (8)	\$ (38)	\$ -	\$ 5,962
Attributable to:						
Company	6,135	379	(8)	(38)	-	6,468
Non-controlling interests	(506)	-	-	-	-	(506)
	\$ 5,629	\$ 379	\$ (8)	\$ (38)	\$ -	\$ 5,962

Note a: The CGAAP numbers at September 30, 2010 have been updated to reflect the final HS Orka purchase price adjustments which were recorded at June 30, 2011.

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

### 21) FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

#### *b) Reconciliations (continued)*

The Canadian GAAP statement of comprehensive (loss) income for the three-month period ended September 30, 2010 has been reconciled to IFRS as follows (continued):

	Note a CGAAP	(i) Currency adj	(iii) Pension	(iv) Depreciation	IFRS
	<b>Sept 30 2010</b>				<b>Sept 30 2010</b>
Income (loss for the period)	5,629	379	(8)	(38)	5,962
Translation adjustment on foreign operations	19,309	(2,497)	(68)	-	16,744
	<u>24,938</u>	<u>(2,118)</u>	<u>(76)</u>	<u>(38)</u>	<u>22,706</u>
Attributable to:					
Owners of the Company	25,444	(2,118)	(76)	(38)	23,212
Non-controlling interest	(506)	-	-	-	(506)
Comprehensive income (loss) for the period	<u>\$ 24,938</u>	<u>\$ (2,118)</u>	<u>\$ (76)</u>	<u>\$ (38)</u>	<u>\$ 22,706</u>

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

### 21) FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

#### b) Reconciliations (continued)

The September 30, 2010 Canadian GAAP consolidated balance sheet has been reconciled to IFRS as follows:

	CGAAP	(i) Currency adj	(ii) Tax	(iii) Pension	(iv) Depreciation	IFRS
	Sep 30 2010					Sep 30 2010
<b>Assets</b>						
Cash and cash equivalents	\$ 46,226	\$ -	\$ -	\$ -	\$ -	\$ 46,226
Trade and other receivables	9,348	-	-	(26)	-	9,322
Convertible debenture	7,954	-	-	-	-	7,954
Current portion of embedded derivatives	2,212	-	-	-	-	2,212
Inventories	2,923	-	-	-	-	2,923
Prepaid expenses	546	1	-	-	-	547
	69,209	1	-	(26)	-	69,184
Plant and equipment	372,996	(1,874)	-	-	(45)	371,077
Geothermal properties	127,027	(993)	(154)	-	-	125,880
Other intangible assets	1,426	-	-	-	-	1,426
Goodwill	7,759	-	-	7,929	-	15,688
Investments	21,978	-	-	-	-	21,978
Bonds receivable	4,266	-	-	-	-	4,266
Embedded derivatives	10,668	-	-	-	-	10,668
Long-term receivable	3,976	-	-	903	-	4,879
Deferred income tax	4,083	-	-	2,069	-	6,152
Other assets	150	-	-	-	-	150
	<b>\$ 623,538</b>	<b>\$ (2,866)</b>	<b>\$ (154)</b>	<b>\$ 10,875</b>	<b>\$ (45)</b>	<b>\$ 631,348</b>
<b>Liabilities And Shareholders' Equity</b>						
Accounts payable and accrued liabilities	44,694	-	-	-	-	44,694
Current portion of long-term debt and capital lease obligations	16,812	-	-	-	-	16,812
Currency and interest rate swap contracts	2,153	-	-	-	-	2,153
	63,659	-	-	-	-	63,659
Long-term debt and capital lease obligations	268,923	-	-	-	-	268,923
Pension fund obligation	-	-	-	12,371	-	12,371
Currency and interest rate swaps	7,495	-	-	-	-	7,495
Below market contracts	30,113	-	-	-	-	30,113
Deferred income tax	23,401	-	-	-	(8)	23,393
Deferred revenue	2,222	(153)	-	-	-	2,069
	395,813	(153)	-	12,371	(8)	408,023
<b>Equity</b>						
Share capital	222,753	-	-	-	-	222,753
Contributed surplus	1,090	-	-	-	-	1,090
Accumulated other comprehensive income (loss)	29,419	(12,607)	-	(68)	-	16,744
Deficit	(29,037)	9,894	(154)	(1,322)	(37)	(20,656)
Non-controlling interest	3,500	-	-	(106)	-	3,394
	227,725	(2,713)	(154)	(1,496)	(37)	223,325
	<b>\$ 623,538</b>	<b>\$ (2,866)</b>	<b>\$ (154)</b>	<b>\$ 10,875</b>	<b>\$ (45)</b>	<b>\$ 631,348</b>

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

### 21) FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

#### b) Reconciliations (continued)

The Canadian GAAP statement of operations for the year ended June 30, 2011 has been reconciled to IFRS as follows:

	CGAAP June 30 2011	(i) Currency adj	(iii) Pension	(v) Equity	(ii)/(iv) (vi)/(vii) Other	(viii) Reclassification	IFRS June 30 2011
<b>Revenues</b>							
Energy sales	\$ 68,827	\$ -	\$ 489	\$ (6,418)	\$ -	\$ -	\$ 62,898
EcoEnergy grants	836	-	-	(836)	-	-	-
Finance income	738	-	-	(738)	-	-	-
Portfolio energy credit sales	431	-	-	-	-	-	431
	70,832	-	489	(7,992)	-	-	63,329
Cost of sales	36,601	-	289	(1,432)	-	10,149	45,607
Depreciation and amortization	10,538	-	-	(640)	251	(10,149)	-
<b>Gross profit</b>	<b>23,693</b>	<b>-</b>	<b>200</b>	<b>(5,920)</b>	<b>(251)</b>		<b>17,722</b>
<b>Expenses</b>							
General and administrative	11,048	-	525	(381)	-	6,748	17,940
Professional fees	5,426	-	-	(22)	-	(5,404)	-
General exploration	1,523	-	-	-	-	-	1,523
Depreciation, accretion and amortization	1,344	-	-	-	-	(1,344)	-
	19,341	-	525	(403)	-	-	19,463
<b>Other income (expense)</b>							
Change in fair value of derivatives	19,669	-	-	-	-	(19,669)	-
Change in fair value of long-term debt	(16,217)	-	-	-	-	16,217	-
Equity income (loss)	8,277	-	(7)	3,126	(963)	-	10,433
Loss on remeasurement of equity interest in HS Orka	(9,812)	-	7	-	-	9,805	-
Finance income	1,828	-	-	(17)	-	-	1,811
Finance expense	(16,147)	-	-	2,408	-	-	(13,739)
Hydro and wind development costs written off	(92)	-	-	-	-	92	-
Geothermal development costs written off	(4,306)	-	-	-	-	4,306	-
Other gains and losses	-	-	-	-	-	(9,072)	(9,072)
Foreign exchange gain	1,264	415	-	-	-	(1,679)	-
	(15,536)	415	-	5,517	(963)	-	(10,567)
Income (loss) before income taxes	(11,184)	415	(325)	-	(1,214)	-	(12,308)
Deferred income tax recovery (expense)	(5,957)	-	66	-	47	-	(5,844)
<b>Income (loss) for the period</b>	<b>\$ (17,141)</b>	<b>\$ 415</b>	<b>\$ (259)</b>	<b>\$ -</b>	<b>\$ (1,167)</b>	<b>\$ -</b>	<b>\$ (18,152)</b>
Attributable to:							
Owners of the Company	\$ (14,243)	\$ 415	\$ (259)	\$ -	\$ (1,167)	\$ -	\$ (15,254)
Non-controlling interests	(2,898)	-	-	-	-	-	(2,898)
	<b>\$ (17,141)</b>	<b>\$ 415</b>	<b>\$ (259)</b>	<b>\$ -</b>	<b>\$ (1,167)</b>	<b>\$ -</b>	<b>\$ (18,152)</b>

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

### 21) FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

#### b) Reconciliations (continued)

The Canadian GAAP statement of comprehensive loss for the year ended June 30, 2011 has been reconciled to IFRS as follows (continued):

	CGAAP June 30 2011	(i) Currency adj	(iii) Pension	(v) Equity	(ii)/(iv) (vi)/(vii) Other	IFRS June 30 2011
Income (loss) for the period	\$ (17,141)	\$ 415	\$ (259)	\$ -	\$ (1,167)	\$ (18,152)
Effective portion of changes in fair value of cash flow hedge, net of taxes	(604)	-	-	-	(92)	(696)
Net change in fair value of cash flow hedge transferred to profit or loss, net of taxes	225	-	-	-	-	225
Translation adjustment on foreign operations	14,472	(4,917)	27	-	-	9,582
<b>Comprehensive loss for the period</b>	<b>\$ (3,048)</b>	<b>\$ (4,502)</b>	<b>\$ (232)</b>	<b>\$ -</b>	<b>\$ (1,259)</b>	<b>\$ (9,041)</b>
Attributable to:						
Owners of the Company	\$ (150)	\$ (4,502)	\$ (232)	\$ -	\$ (1,259)	\$ (6,143)
Non-controlling interests	(2,898)	-	-	-	-	(2,898)
	<b>\$ (3,048)</b>	<b>\$ (4,502)</b>	<b>\$ (232)</b>	<b>\$ -</b>	<b>\$ (1,259)</b>	<b>\$ (9,041)</b>

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

### 21) FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

#### b) Reconciliations (continued)

The June 30, 2011 Canadian GAAP consolidated balance sheet has been reconciled to IFRS:

	CGAAP Jun 30 2011	(i) Currency adj	(iii) Pension	(v) Equity	(ii)/(iv) (vi)/(vii) Other	IFRS Jun 30 2011
<b>Assets</b>						
<b>Current</b>						
Cash and cash equivalents	\$ 73,690	\$ -	\$ -	\$ (5,404)	\$ -	\$ 68,286
Restricted cash	6,796	-	-	(2,296)	-	4,500
Trade and other receivables	18,400	-	-	(6,176)	-	12,224
Current portion of embedded derivatives	2,381	-	-	-	-	2,381
Inventories	3,263	-	-	-	-	3,263
Prepaid expenses	3,143	73	-	(2,555)	-	661
	<u>107,673</u>	<u>73</u>	<u>-</u>	<u>(16,431)</u>	<u>-</u>	<u>91,315</u>
Bonds receivable	4,621	-	-	-	-	4,621
Long-term receivable	4,258	-	1,421	-	-	5,679
Lease receivable	111,912	-	-	(111,912)	-	-
Other investments	23,079	-	-	-	-	23,079
Equity investments - TMGP	-	-	-	36,670	-	36,670
Equity investments - DGP	-	-	-	22,940	(1,056)	21,884
Embedded derivatives	17,032	-	-	-	-	17,032
Other assets	645	-	-	(270)	-	375
Plant and equipment	605,909	(3,621)	-	(233,724)	(251)	368,313
Geothermal development costs	132,054	(1,847)	-	-	(153)	130,054
Hydro development costs	74,347	-	-	-	-	74,347
Wind development costs	18,720	-	-	-	-	18,720
Other intangible assets	12,872	-	-	(9,374)	-	3,498
Goodwill	11,669	-	7,867	-	-	19,536
<b>Total assets</b>	<b>\$ 1,124,791</b>	<b>\$ (5,395)</b>	<b>\$ 9,288</b>	<b>\$ (312,101)</b>	<b>\$ (1,460)</b>	<b>\$ 815,123</b>
<b>Liabilities and shareholders' equity</b>						
Accounts payable and accrued liabilities	\$ 32,694	\$ -	\$ -	\$ (2,855)	\$ -	\$ 29,839
Other liabilities	870	-	-	(588)	-	282
Current portion of long-term debt and capital lease obligations	22,240	-	-	(3,412)	-	18,828
Current portion of currency and interest rate swaps	4,398	-	-	(1,594)	-	2,804
	<u>60,202</u>	<u>-</u>	<u>-</u>	<u>(8,449)</u>	<u>-</u>	<u>51,753</u>
Long-term debt and capital lease obligations	583,800	-	-	(288,936)	-	294,864
Pension fund obligation	-	-	13,067	-	-	13,067
Currency and interest rate swap contracts	21,847	-	-	(14,716)	-	7,131
Below market contracts	29,797	-	-	-	-	29,797
Deferred income tax	22,159	-	(2,119)	-	(47)	19,993
Deferred revenue	658	(279)	-	-	-	379
<b>Total liabilities</b>	<b>718,463</b>	<b>(279)</b>	<b>10,948</b>	<b>(312,101)</b>	<b>(47)</b>	<b>416,984</b>

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

### 21) FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

#### b) Reconciliations (continued)

	CGAAP	(i) Currency	(iii) Pension	(v) Equity	(ii)/(iv) (vi)/(vii) Other	IFRS
Equity	Jun 30 2011	adj				Jun 30 2011
Share capital	361,740	-	-	-	-	361,740
Contributed surplus	2,815	-	-	-	-	2,815
Accumulated other comprehensive income (loss)	24,203	(15,046)	46	-	(92)	9,111
Deficit	(35,960)	9,930	534	-	(1,321)	(26,817)
Non-controlling interest	53,530	-	(2,240)	-	-	51,290
	<u>406,328</u>	<u>(5,116)</u>	<u>(1,660)</u>	<u>-</u>	<u>(1,413)</u>	<u>398,139</u>
	<b>\$ 1,124,791</b>	<b>\$ (5,395)</b>	<b>\$ 9,288</b>	<b>\$ (312,101)</b>	<b>\$ (1,460)</b>	<b>\$ 815,123</b>

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 (adjustment (v) below), 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

#### c) IFRS adjustments:

##### i) Currency adjustment

On transition to IFRS, there is a change in functional currency from Canadian dollar to the United States dollar for the Company's U.S. subsidiaries. This results in adjustments to the carrying value of the subsidiaries non-monetary items as of the transition date. As the Company has elected to apply the IFRS 1 exemption for cumulative translation differences, the opening adjustment to the carrying value of the subsidiaries' non-monetary items is recorded to deficit. Subsequent adjustments are charged to cumulative translation adjustments (included in other comprehensive income).

##### ii) Income tax

In Fiscal 2010, the Company capitalized certain geothermal property exploration costs incurred by the Company on behalf of certain of its foreign subsidiaries. Under Canadian GAAP, a \$154,034 future income tax liability was recognized and measured in accordance with CICA section 3465 Income Taxes, with a corresponding increase to the carrying value of geothermal property assets. Under IAS 12 Income Taxes, this deferred tax liability and the related gross-up in the carrying value of geothermal properties would not be recognized, either on acquisition or subsequently. As at July

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

### 21) FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

#### c) IFRS adjustments (continued)

1, 2010, September 30, 2010 and June 30, 2011, this change in accounting policy resulted in a decrease of \$154,034 in the carrying value of geothermal properties, and a corresponding increase in deficit of \$154,034.

#### iii) Pension

Under Canadian GAAP, the HS Orka multi-employer defined benefit pension arrangements have been accounted for as defined contribution plans. Under IFRS, the pension arrangements are accounted for as a defined benefit plans. This change in accounting policy resulted in a decrease in the carrying value of the Company's investments subject to significant influence with a corresponding increase in the deficit balance as at July 1, 2010.

Following acquisition of HS Orka on August 17, 2010, the Company consolidates the results of HS Orka and correspondingly recorded a pension liability, and a change to long term liability, deferred taxes and goodwill.

#### iv) Depreciation

On acquisition of HS Orka, the fair value uplift of plant and equipment was not componentized in accordance with IAS 16, *Property Plant and Equipment*. On adoption of IFRS, the increase in plant and equipment value was componentized and an additional depreciation charge in the period from acquisition to June 30, 2011 of \$251,000 was recorded in depreciation and amortization and \$47,000 as a credit to deferred income tax expense.

#### v) Equity accounted entities

Under Canadian GAAP, the Company's investments in TMGP and DGP were required to be accounted for using the proportionate consolidation method of accounting. In accordance with IAS31, *Interests in Joint Ventures*, the Company has the option of accounting for its jointly controlled entities TMGP and DGP using either the proportionate consolidation or equity methods of consolidation. In accordance with the release of IFRS 11 on May 12, 2011, which is applicable for annual periods beginning on or after January 1, 2013, the Company will be required to apply equity accounting for their interest in TMGP and DGP. To avoid a future change in accounting policy, the Company has elected to account for its jointly controlled entities TMGP and DGP using the equity method, which is permissible under IAS 31 and will be required under IFRS 11.

The reconciling adjustment includes removing all individual line items relating to TMGP and DGP from the statement of financial position, statement of operations and statements of cash flow and recording the investment in these jointly controlled operations at their initial carrying value with increases or decreases to the investment being recognized to the extent of the Company's share of the comprehensive income or loss of TMGP and DGP. The Company's share of the profit or loss, and other comprehensive income, of TMGP and DGP is recognized in the Company's statement of operations and statement of comprehensive income.

# Alterra Power Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended September 30, 2011 and 2010

(tabular amounts expressed in thousands of United States dollars unless otherwise stated)

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### 21) FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

#### c) IFRS adjustments (continued)

##### vi) *Service concession arrangement*

In accordance with IFRS Interpretations Committee (“IFRIC”) 12 – *Service Concession Arrangements*, DGP has recorded its PPA with BC Hydro as a service concession arrangement. The standard applies to a situation where a private sector entity constructs and / or operates an infrastructure used to provide public services. The asset value is recorded as an intangible asset and is amortized over the life of the PPA. In the period from acquisition on May 12, 2011 to June 30, 2011, an adjustment of \$1,056,000 was recorded as a reduction in equity investment in DGP and a reduction in earnings from equity investments.

##### vii) *Interest rate hedge*

Under both IFRS and Canadian GAAP, TMGP’s long dated interest rate swap contract has been designated as a cash flow hedge. The liability recorded under both accounting frameworks is consistent for all periods presented and takes into account the credit risk of TMGP and the counterparty. Under Canadian GAAP, the impact of changes in credit risk on the interest rate swap liability is recorded in other comprehensive income.

In accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, the change in fair value of the interest rate swap contract arising from changes in credit risk is recorded directly in the statement of operations. In the period from acquisition on May 12, 2011 to June 30, 2011, an adjustment of \$92,000 was recorded as a reduction in Other Comprehensive Income and an increase in earnings from equity investments.

##### viii) *Reclassification*

The Statement of Operations for the three month period ended September 30, 2010 and the twelve month period ended June 30, 2011 have been restated to reflect the function presentation of the Statement of Operations adopted by the Company.

### 22) SUBSEQUENT EVENTS

Subsequent to September 30, 2011, the Company repaid in full the C\$4.0 million funding provided by the Company’s Chairman during the quarter ended September 30, 2011.