



Consolidated Financial Statements
June 30, 2011 and 2010
(expressed in United States dollars)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Alterra Power Corp. are the responsibility of management. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and where appropriate include management's best estimates and judgments.

Management maintains a system of internal control designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and that financial information is timely and reliable.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Board of Directors appoints the Audit Committee, and all of its members are independent directors. The Audit Committee meets periodically with management and the shareholders' auditors to review financial statements and reports prepared by management, internal controls, audit results, accounting principles and related matters. The Board of Directors approves the consolidated financial statements on recommendation from the Audit Committee.

KPMG LLP, an independent firm of Chartered Accountants, was appointed by the shareholders at the last annual meeting to examine the consolidated financial statements and provide an independent professional opinion.

“John Carson”

John Carson
Chief Executive Officer
September 16, 2011

“Peter G. Wong”

Peter G. Wong
Chief Financial Officer



KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Alterra Power Corp.

We have audited the accompanying consolidated financial statements of Alterra Power Corp. (formerly Magma Energy Corp.), which comprise the consolidated balance sheet as at June 30, 2011, the consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Alterra Power Corp. as at June 30, 2011, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other Matter

The consolidated financial statements of the Entity as at and for the year ended June 30, 2010 were audited by another auditor who expressed an unmodified opinion on those statements in their report dated September 27, 2010.

KPMG LLP

Chartered Accountants

September 16, 2011
Vancouver, Canada

Alterra Power Corp.
Consolidated Balance Sheets
As at June 30, 2011 and 2010

(expressed in thousands of United States dollars)

	Note	2011	2010
Assets			
Current assets			
Cash and cash equivalents		\$ 73,690	\$ 25,343
Restricted cash		6,796	-
Trade and other receivables		18,400	728
Current portion of embedded derivatives	12	2,381	-
Inventories		3,263	-
Prepaid expenses		3,143	483
		<u>107,673</u>	<u>26,554</u>
Bonds receivable	8	4,621	-
Long-term receivable	9	4,258	-
Lease receivable	10	111,912	-
Investments in associates	11	23,079	103,828
Embedded derivatives	12	17,032	-
Other assets		645	822
Plant and equipment	13	605,909	35,371
Geothermal development costs	14	132,054	32,128
Hydro and wind development costs	15	93,067	-
Other intangible assets	16	12,872	-
Goodwill	17	11,669	-
		<u>\$ 1,124,791</u>	<u>\$ 198,703</u>
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities		\$ 32,694	\$ 5,105
Other liabilities		870	-
Current portion of long-term debt and capital lease obligations	18	22,240	23
Current portion of currency and interest rate swaps	19	4,398	-
		<u>60,202</u>	<u>5,128</u>
Long-term debt and capital lease obligations	18	583,800	49,396
Currency and interest rate swaps	19	21,847	-
Below market contracts		29,797	1,752
Future income tax	26	22,159	-
Deferred revenue	20	658	357
		<u>718,463</u>	<u>56,633</u>
Equity			
Share capital	21	361,740	153,403
Contributed surplus		2,815	974
Accumulated other comprehensive income		24,203	10,110
Deficit		(35,960)	(22,417)
Total equity attributable to owners of the Company		<u>352,798</u>	<u>142,070</u>
Non-controlling interest		53,530	-
Total equity		<u>406,328</u>	<u>142,070</u>
		<u>\$ 1,124,791</u>	<u>\$ 198,703</u>

Commitments (note 25)
Income taxes (note 26)
Subsequent events (notes 14(c) and 29)

Approved on behalf of the Board of Directors

"Ross Beaty"
Ross Beaty
(Director)

"Donald Shumka"
Donald Shumka
(Director)

The accompanying notes are an integral part of the consolidated financial statements

Alterra Power Corp.
Consolidated Statements of Operations
For the years ended June 30, 2011 and 2010

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

	Note	2011	2010
Revenues			
Energy sales		\$ 68,827	\$ 5,056
EcoEnergy grants		836	-
Finance income	10	738	-
Portfolio energy credit sales		431	-
		<u>70,832</u>	<u>5,056</u>
Cost of sales		36,601	3,005
Depreciation and amortization		10,538	1,629
Gross profit		<u>23,693</u>	<u>422</u>
Expenses			
General and administrative		11,048	4,921
Professional fees		5,426	1,957
General exploration		1,523	1,404
Depreciation, accretion and amortization		1,344	43
		<u>19,341</u>	<u>8,325</u>
Other income (expenses)			
Change in fair value of derivatives		19,669	-
Change in fair value of long-term debt		(16,217)	64
Equity income (loss)		8,277	(10,806)
Loss on remeasurement of previously held equity interest in HS Orka	3	(9,812)	-
Interest and other income		1,828	363
Interest and other financing costs		(16,147)	(1,000)
Hydro and wind development costs written-off	15	(92)	-
Geothermal development costs written-off	14	(4,306)	(945)
Foreign exchange gain		1,264	4,281
Other expense		-	(500)
		<u>(15,536)</u>	<u>(8,543)</u>
Loss before income taxes		(11,184)	(16,446)
Future income tax expense	26	(5,957)	-
Loss for the year		<u>\$ (17,141)</u>	<u>\$ (16,446)</u>
Attributable to:			
Owners of the Company		\$ (14,243)	\$ (16,446)
Non-controlling interests		(2,898)	-
		<u>\$ (17,141)</u>	<u>\$ (16,446)</u>
Weighted average shares outstanding (thousands)			
Basic and diluted		306,838	243,555
Loss per common share attributable to owners of the Company			
Basic and diluted		\$ (0.05)	\$ (0.07)

The accompanying notes are an integral part of the consolidated financial statements

Alterra Power Corp.

Consolidated Statements of Cash Flows
For the years ended June 30, 2011 and 2010
(expressed in thousands of United States dollars)

	2011	2010
Operating activities		
Loss for the year	\$ (17,141)	\$ (16,446)
Items not affecting cash		
Amortization, depletion and accretion	11,882	1,672
Amortization of below market contracts	(2,060)	(432)
Equity loss (income)	(8,277)	10,806
Non-cash revenue adjustment	(861)	-
Change in fair value of long-term debt	16,217	(64)
Change in fair value of derivatives	(19,669)	-
Unrealized foreign exchange	(1,264)	336
Future income taxes expense	5,957	-
Loss on remeasurement of equity interest in HS Orka	9,812	-
Stock based compensation	831	877
Geothermal development costs written-off	4,306	945
Hydro and wind development costs written-off	92	-
Increase (decrease) in non-cash working capital items	(5,394)	2,395
Cash generated by (used in) operating activities	(5,569)	89
Financing activities		
New borrowings	22,810	-
Restricted cash	(6,796)	-
Repayment of loans payable	(23,607)	-
Capital lease obligations payments	(28)	(21)
Shares issued for cash, net of issue costs	41,660	109,092
Cash generated by financing activities	34,039	109,071
Investing activities		
Cash used to purchase HS Orka hf, net of cash acquired	(59,376)	(67,706)
Proceeds on sale of 25% of HS Orka	70,056	-
Purchase of plant and equipment	(5,192)	(13,265)
Geothermal development costs	(13,886)	(16,043)
Hydro and wind development costs	(52)	-
Net cash received on acquisition of Plutonic	14,941	-
Proceeds on sale of bonds	10,964	-
Other	(461)	(707)
Cash generated by (used in) investing activities	16,994	(97,721)
Effect of foreign exchange on cash	2,883	9,421
Increase in cash and cash equivalents	48,347	20,860
Cash and cash equivalents - beginning of year	25,343	4,483
Cash and cash equivalents - end of year	\$ 73,690	\$ 25,343
Supplementary cash flow information (note 28)		

Alterra Power Corp.

Consolidated Statements of Comprehensive Income (Loss)

For the years ended June 30, 2011 and 2010

(expressed in thousands of United States dollars)

	<u>2011</u>	<u>2010</u>
Loss for the year	\$ (17,141)	\$ (16,446)
Other comprehensive income (loss)		
Effective portion of changes in fair value of cash flow hedge, net of taxes	(604)	-
Net change in fair value of cash flow hedge transferred to profit or loss, net of taxes	225	-
	<u>(379)</u>	-
Translation adjustment for foreign operations	14,472	10,849
	<u>(3,048)</u>	(5,597)
Attributable to:		
Owners of the Company	(150)	(5,597)
Non-controlling interest	(2,898)	-
Comprehensive loss for the year	<u>\$ (3,048)</u>	<u>\$ (5,597)</u>

Alterra Power Corp.

Consolidated Statements of Equity

For the years ended June 30, 2011 and 2010

(expressed in thousands of United States dollars, except for number of common shares)

Note	Common shares		Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Non - controlling interest	Total equity
	Number of shares	Amount					
Balance, June 30, 2009	163,291,668	\$ 45,058	\$ -	\$ (739)	\$ (5,121)	\$ -	\$ 39,198
Common shares issued for cash	85,252,973	115,709	-	-	-	-	115,709
Share issue costs	-	(7,510)	-	-	-	-	(7,510)
Exercise of options	21 33,333	49	-	-	-	-	49
Shares issued to employees	60,000	83	-	-	-	-	83
Share of capital transaction of HS Orka	-	-	-	-	(850)	-	(850)
Value assigned to options granted	-	-	988	-	-	-	988
Fair value of options exercised	-	14	(14)	-	-	-	-
Foreign exchange translation	-	-	-	10,849	-	-	10,849
Loss for the year	-	-	-	-	(16,446)	-	(16,446)
Balance, June 30, 2010	248,637,974	153,403	974	10,110	(22,417)	-	142,070
Common shares issued for cash	21 40,334,628	43,597	-	-	-	-	43,597
Share issue costs	-	(2,395)	-	-	-	-	(2,395)
Subscriptions receipts converted to shares	3 24,808,569	28,148	-	-	-	-	28,148
Shares issued for Plutonic acquisition	4 150,150,621	137,884	-	-	-	-	137,884
Value assigned to options granted	-	-	881	-	-	-	881
Exercise of options	21 652,120	458	-	-	-	-	458
Shares issued to employees	185,000	255	-	-	-	-	255
Shares issued on termination of employment	347,368	271	-	-	-	-	271
Fair value of options exercised	-	119	(119)	-	-	-	-
Value assigned to Plutonic options on acquisition	-	-	1,079	-	-	-	1,079
Foreign exchange translation	-	-	-	14,472	-	-	14,472
Effective portion of changes in fair value of cash flow hedge, net of taxes	-	-	-	(604)	-	-	(604)
Net change in fair value of cash flow hedge transferred to profit or loss, net of taxes	-	-	-	225	-	-	225
Loss for the year	-	-	-	-	(14,243)	(2,898)	(17,141)
Acquisition of controlling interest	3 -	-	-	-	-	35,407	35,407
Acquisition of non-controlling interest - 14.32%	5 -	-	-	-	(12,755)	(31,400)	(44,155)
Acquisition of non-controlling interest - 1.47%	5 -	-	-	-	(543)	(3,639)	(4,182)
Disposal of non-controlling interest - 25%	5 -	-	-	-	13,998	56,060	70,058
Balance, June 30, 2011	465,116,280	\$ 361,740	\$ 2,815	\$ 24,203	\$ (35,960)	\$ 53,530	\$ 406,328

Alterra Power Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2011 and 2010

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

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 a wind farm (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), advanced-stage exploration run-of-river and wind properties in British Columbia (the Upper Toba Valley project and the Dokie Wind Expansion project) and the Maule geothermal property in Chile. The Company's exploration and development pipeline also includes a number of early-stage properties in British Columbia, Nevada, Utah, Italy and Peru.

The recoverability of the carrying values of the Company's properties is dependent upon the existence and discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties and future profitable production from or proceeds from disposition of properties. The carrying value of the Company's properties represent net costs to date, less amounts amortized and/or written off and does not represent current or future values.

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

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

Alterra Power Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2011 and 2010

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

2) SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These consolidated financial statements are presented in United States dollars, have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") 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.

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 includes in these consolidated financial statements its 40% and 51% share of the assets, liabilities, revenue and expenses of TMGP and DGP respectively for the period May 13 to June 30, 2011.

At June 30, 2011 the Company 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.

b) Use of estimates and judgements

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes. Significant areas where management's judgment affects the reported amounts are depreciation, the assessment of asset impairment, stock-based compensation, the fair value of embedded derivatives, financial instruments, future 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.

c) Basis of consolidation

i) Business combinations

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

Alterra Power Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2011 and 2010

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

2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Basis of consolidation (continued)

i) *Business combinations (continued)*

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

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

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

ii) *Acquisitions of non-controlling interests*

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

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 (equity accounted investees)*

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

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

Alterra Power Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2011 and 2010

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

2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Basis of consolidation (continued)

v) *Jointly controlled entities*

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

vi) *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.

d) Financial instruments

i) *Non-derivative financial instruments*

The Company initially recognizes loans and receivables and other liabilities on the date that they are originated. All other financial assets and liabilities 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 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 derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

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.

The Company has the following non-derivative financial assets and liabilities: held for trading financial assets and liabilities, loans and receivables, available-for-sale assets and other financial liabilities.

Held for trading financial assets and liabilities

Financial assets and liabilities classified or designated as held for trading are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition attributable transaction costs are recognized in profit or loss as incurred.

Cash and cash equivalents, restricted cash and bonds receivable and bonds payable are designated as held for trading. Bonds payable have been designated as held for trading as they contain embedded derivatives (notes 12 and 18).

Alterra Power Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2011 and 2010

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

2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Financial instruments (continued)

i) *Non-derivative financial instruments (continued)*

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 comprise trade and other receivables and long-term receivables.

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 profit or loss.

Other financial liabilities

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

The Company has the following other financial liabilities: long-term debt (excluding bonds), accounts payable and accrued liabilities and other liabilities.

ii) *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.

iii) *Derivative financial instruments, including hedge accounting*

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

On initial designation of the hedge, the Company formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be effective in offsetting the changes in the fair value or cash flows of

Alterra Power Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2011 and 2010

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

2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Financial instruments (continued)

iii) *Derivative financial instruments, including hedge accounting (continued)*

the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80% to 125%. For a cash flow hedge of a forecast transaction, the transaction should be probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

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

Cash flow hedges

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

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

TMGP has designated its interest rate swap as a cash flow hedge of its variable rate debt (note 19).

Separable embedded derivatives

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

e) Cash and cash equivalents

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

f) 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.

Alterra Power Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2011 and 2010

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

2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Lessor 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 fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the 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 required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values.

Agreements which transfer to counterparties substantially all the risks and rewards of ownership of assets, but not necessarily legal title, are classified as capital leases. When the Company is a lessor under capital leases the amounts due under the leases, after deduction of unearned finance income, are included in lease receivable (in the 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 net investment in the leases.

Contingent rent is recognized in the period received and included in revenues as energy sales (in the statement of operations).

DGP's Electricity Purchase Agreement ("EPA") with British Columbia Hydro and Power Authority ("BC Hydro") has been determined to be a capital lease. Therefore, lessor accounting has been applied to this contract.

h) Plant and equipment

Plant and equipment are stated at cost, net of 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. 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.

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

Depreciation is provided on a declining balance method for all other property and equipment with annual rates ranging from 20% to 30%.

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 assigned to a reporting unit and is not amortized.

Goodwill of a reporting unit is tested for impairment on an annual basis or more frequently when an event or circumstance occurs that more likely than not reduces the fair value of a reporting unit below its carrying amount. The Company compares the estimated fair value of the reporting unit to which goodwill was assigned with the carrying amount of the reporting unit. When the carrying

Alterra Power Corp.

Notes to the Consolidated Financial Statements

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

2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Intangible assets (continued)

i) Goodwill (continued)

amount of a reporting unit exceeds its estimated fair value, the Company measures the goodwill impairment loss, if any, as the excess of the carrying amount of the reporting unit's goodwill over its estimated fair value. A goodwill impairment loss is not reversed if the fair value of the reporting unit's goodwill subsequently increases.

ii) Research and development – Hydro, wind and geothermal development costs

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

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

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

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

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

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

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

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

Alterra Power Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2011 and 2010

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

2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Intangible assets (continued)

ii) *Research and development – Hydro, wind and geothermal development costs (continued)*

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) *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.

iv) *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 profit or loss when incurred.

v) *Amortization*

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

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

TMGP's prepaid land tenure licenses are amortized on a straight-line basis over the 39 year term of the licenses, commencing on construction of Toba Montrose. Other TMGP intangible assets began amortization on commencement of commercial operation of Toba Montrose on a straight-line basis over the 35 year term of its EPA, applicable permits and agreements. DGP's intangible assets commenced amortization on the commercial operation date on a straight-line basis over the 25 year term of its EPA and agreements.

HS Orka has software that is amortized on a straight-line basis over various terms from 5-10 years. All other software is amortized 100% in the year of acquisition.

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

j) **Income taxes**

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

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

Future income tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Future tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have

Alterra Power Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2011 and 2010

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

2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Income taxes (continued)

been enacted or substantively enacted by the reporting date. Future tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

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

k) Impairment of long-lived assets

Long-lived assets, including hydro, wind and geothermal development costs, plant and equipment and other intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. Recoverability of assets is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount that the carrying amount of the asset exceeds its fair value.

l) Environmental protection practices and asset retirement obligations

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.

The Company recognizes the fair value of liabilities for asset retirement obligations 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 asset retirement 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. 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.

The fair value of the asset retirement obligations for Toba Montrose, the Dokie Wind Farm and projects of HS Orka cannot be reasonably estimated due to the long service life of these assets and the low probability that these projects would ever be abandoned due to the renewable nature of the electricity being generated.

Alterra Power Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2011 and 2010

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

2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) Environmental protection practices and asset retirement obligations (continued)

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.

As at June 30, 2011 and 2010, the Company has not recognized any amounts in connection with asset retirement obligations.

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.

Revenue from 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 translation

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

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

Alterra Power Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2011 and 2010

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

2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Foreign currency translation (continued)

The reporting currency selected for the presentation of these consolidated financial statements is the United States ("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).

p) Earnings (loss) per common share

Earnings (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.

q) 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 are reviewed regularly by the Company's management to make decisions about resource allocations to the segment and to assess its performance, and for which discrete financial information is available.

r) Future changes in accounting standards

International Financial Reporting Standards:

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed the use of International Financial Reporting Standards ("IFRS") to commence in 2011 for publicly-listed companies. IFRS will replace Canadian GAAP and the official changeover date is for interim and annual financial statements relating to fiscal periods beginning on or after January 1, 2011.

The Company will adopt IFRS according to requirements outlined by the AcSB and with adoption on July 1, 2011. The Company has identified the following areas as having significant accounting policy changes and impact on the Company's consolidated financial statements and disclosures when IFRS is adopted:

i) Investments in joint ventures

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

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

Alterra Power Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2011 and 2010

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

2) SIGNIFICANT ACCOUNTING POLICIES (Continued)

r) Future changes in accounting standards (continued)

ii) *Financial instruments*

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

iii) *Accounting for service concession arrangements*

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

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

iv) *Effect of changes in exchange rates of foreign currencies*

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

v) *Employee benefits*

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

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Notes to the Consolidated Financial Statements

For the years ended June 30, 2011 and 2010

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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. As at June 30, 2011 the Company owned 75% of HS Orka.

In the year ended June 30, 2011, HS Orka contributed revenue of \$57.8 million and net profit of \$13.8 million subsequent to August 17, 2010. If the acquisition had occurred on July 1, 2010, management estimates that consolidated revenue would have been \$64.5 million and consolidated net profit for the period would have been \$30.8 million primarily due to both the operating results of HS Orka and the gain on change in fair value of embedded derivatives in the period July 1, 2010 to August 16, 2010. In determining these amounts, management has assumed that the fair value adjustments that arose on the acquisition date would have been the same if the acquisition had occurred on July 1, 2010.

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
	\$	88,617

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
Investments in associates		22,079
Plant and equipment		317,973
Intangible assets (includes geothermal rights, development costs, etc.)		84,871
Other assets		3,788
Accounts payable and accrued liabilities		(12,307)
Long-term debt		(171,220)
Derivatives		(10,058)
Below market contracts		(29,010)
Net future income tax liabilities		(15,557)
	\$	224,239

Alterra Power Corp.

Notes to the Consolidated Financial Statements

For the years ended June 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		35,407
Fair value of previously held interest in the acquiree		107,607
Less fair value of net identifiable assets of the acquiree		(224,239)
Goodwill	\$	7,392

Goodwill comprises of the value attributable to management strength and experience of operating geothermal facilities in Iceland.

The non-controlling interest of \$35.4 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 has been recognized in other income in the consolidated statement of operations for the year ended June 30, 2011.

4) BUSINESS COMBINATION - PLUTONIC POWER CORPORATION

On May 13, 2011, the Company and Plutonic completed an arrangement agreement through which the Company acquired all of the issued and outstanding common shares of Plutonic. This acquisition has been accounted for as a business combination.

In the year ended June 30, 2011, Plutonic and its subsidiaries contributed revenue of \$8.0 million and net profit of \$2.0 million. If the acquisition had occurred on July 1, 2010, management estimates that consolidated revenue of Plutonic would have been \$13.3 million, and consolidated net loss for the period would have been \$16.6 million. In determining these amounts management has assumed that the fair value adjustments that arose on the acquisition date would have been the same if the acquisition had occurred on July 1, 2010.

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
	\$	148,098

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.

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Notes to the Consolidated Financial Statements

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(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 (including restricted cash of \$234)	\$	15,639
Accounts receivable and other assets		6,552
Lease receivable		110,536
Plant and equipment		234,495
Hydro and wind power development costs		92,689
Intangible assets		11,427
Long-term deposits		435
Accounts payable and accrued liabilities		(9,895)
Other liabilities		(471)
Short and long-term debt		(301,411)
Fair value of interest rate swap contract		(15,850)
	\$	144,146

c) Goodwill recognized

Total consideration transferred	\$	148,098
Less fair value of net identifiable assets of the acquiree		(144,146)
Goodwill	\$	3,953

Goodwill comprises 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. 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 \$31.4 million and an increase in deficit of \$12.8 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 \$3.6 million and an increase in deficit of \$0.6 million.

Concurrent with the purchase of the additional 1.47% disclosed 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 \$56.1 million and a reduction in deficit of \$14.0 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%. Jarðvarmi holds significant minority shareholder rights, including the right to appoint Board members and participate in non-ordinary course business decisions of HS Orka as long as it continues to hold at least a 22.5% interest in HS Orka.

Alterra Power Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2011 and 2010

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6) INVESTMENT IN TOBA MONTROSE GENERAL PARTNERSHIP

- a) The Company holds a 51% participating and voting interest in the partnership and 40% non-voting and participation of the distributions of 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, accounted for under the proportionate consolidation method including fair value adjustments assumed on the acquisition of Plutonic by the Company (note 4), are included in these consolidated financial statements as follows:

	June 30, 2011	
Cash and cash equivalents	\$	4,476
Trade and other receivables		5,332
Prepaid expenses		1,759
Plant and equipment		233,618
Intangible assets		5,643
Other assets		156
		250,984
Accounts payable and accrued liabilities		2,443
Other liabilities		167
Long-term debt		195,365
Interest rate swaps		8,223
		206,198
Net assets	\$	44,786

	May 13 - June 30, 2011	
Revenue	\$	6,411
Production and cost of sales		(743)
Interest expense		(1,575)
Other expenses		(760)
Realized and unrealized loss on interest rate swaps		(2)
Share of TMGP income for the period	\$	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 Toba Montrose. 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.

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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 51% interest in the assets, liabilities, expenses and cash flows of DGP, accounted for under the proportionate consolidation method including fair value adjustments assumed on the acquisition of Plutonic by the Company (note 4), are included in these consolidated financial statements as follows:

	June 30, 2011	
Cash and cash equivalents	\$	928
Restricted cash		2,296
Trades and other receivables		1,405
Prepaid expenses		796
Lease receivable		111,912
Plant and equipment		109
Intangible assets		5,804
		<u>123,250</u>
Accounts payable and accrued liabilities		961
Other liabilities		272
Long-term debt		96,984
		<u>98,217</u>
Net assets	\$	<u>25,033</u>
		May 13 - June 30, 2011
Revenue	\$	1,582
Production and cost of sales		(852)
Interest expense		(833)
Other expenses		(156)
Share of DGP loss for the period	\$	(259)

- 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.

8) BONDS RECEIVABLE

The bonds have a stated interest rate of 5% plus indexation to the Icelandic Consumer Price Index and mature in 2019.

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9) LONG-TERM RECEIVABLE

The balance is comprised of a long-term receivable in HS Orka for the sale of land. The receivable has a stated interest rate of 5% plus indexation to the Icelandic Consumer Price Index and matures in 2021.

10) LEASE RECEIVABLE

DGP entered into a 25 year EPA with BC Hydro to supply all the electricity generated by the Dokie Wind Farm to BC Hydro. Completion of construction and sales of electricity to BC Hydro commenced in February 2011. As this EPA is determined to be a capital lease in nature, the costs associated with the construction of this project have been transferred to BC Hydro and DGP carries in its books a lease receivable balance of \$219.4 million, of which the Company's proportionate interest is \$111.9 million.

June 30, 2011	Total future minimum receipts	Unearned finance income	Present value
Lease receivable:			
Not later than one year	\$ 4,013	\$ (4,013)	\$ -
Later than one year and not later than five years	27,549	(24,610)	2,939
Later than five years	189,330	(80,357)	108,973
	<u>\$ 220,892</u>	<u>\$ (108,980)</u>	<u>\$ 111,912</u>

At June 30, 2011 the accumulated allowance for uncollectible minimum lease payments receivable amounted to nil. During the period from the acquisition of Plutonic by the Company (May 13, 2011) to June 30, 2011, the Company has recognized finance income of \$0.7 million representing the Company's proportionate share of income from the DGP lease with BC Hydro and \$0.7 million of contingent rent recognized in energy sales.

11) INVESTMENTS IN ASSOCIATES

	2011	2010
HS Orka	\$ -	\$ 103,828
Blue Lagoon hf	22,842	-
Other	237	-
	<u>\$ 23,079</u>	<u>\$ 103,828</u>

The Company, through HS Orka, holds a 24.36% in Blue Lagoon hf. The Company equity accounts for this investment. During the year ended June 30, 2011, the Company recorded equity income of \$35,671 related to the Blue Lagoon hf.

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12) EMBEDDED DERIVATIVES

The Company has entered into U.S. dollar-based agreements expiring in 2011, 2019, and 2026 for the sale of power to two of its customers in Iceland. Under these agreements, power is to be sold at contractually determined amounts based in part on the future price of aluminum and are therefore considered to include embedded derivatives.

The fair values of the embedded derivatives are estimated using discounted cash flow models based in part on the forward price of aluminum over the next ten years as quoted by the London Metal Exchange and independent third parties expectations of future price changes.

13) PLANT AND EQUIPMENT

June 30, 2011	Cost	Accumulated Amortization	Net Book Value
Plant and plant equipment - Soda Lake	\$ 45,538	\$ (3,728)	\$ 41,810
HS Orka assets (note 13 a)	337,928	(8,671)	329,257
TMGP assets (note 13 b)	234,273	(655)	233,618
DGP assets (note 13 c)	114	(5)	109
Leasehold improvements	8	(1)	7
Automotive	225	(143)	82
Furniture and equipment	1,698	(751)	947
Automotive assets held under capital leases	112	(33)	79
	\$ 619,896	\$ (13,987)	\$ 605,909

June 30, 2010	Cost	Accumulated Amortization	Net Book Value
Plant and plant equipment - Soda Lake	\$ 35,942	\$ (1,712)	\$ 34,230
Automotive	227	(132)	95
Furniture and equipment	1,261	(311)	950
Automotive assets held under capital leases	101	(5)	96
	\$ 37,531	\$ (2,160)	\$ 35,371

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13) PLANT AND EQUIPMENT (Continued)

a) HS Orka assets

June 30, 2011	Cost	Accumulated Amortization	Net Book Value
Plant and equipment	\$ 291,486	\$ (8,671)	\$ 282,815
Assets under construction	46,442	-	46,442
	<u>\$ 337,928</u>	<u>\$ (8,671)</u>	<u>\$ 329,257</u>

The assets under construction value include drilling costs for new production wells and equipment that has not yet been put into service.

b) TMGP assets

A summary of the Company's proportionate interest in TMGP assets is as follows:

June 30, 2011	Cost	Accumulated Amortization	Net Book Value
East Toba River facility	\$ 82,766	\$ (244)	\$ 82,522
Montrose Creek facility	58,087	(212)	57,875
Transmission lines and roads	90,934	(195)	90,739
Operators camp	644	(2)	642
Site equipment	72	(1)	71
Capital spares	1,722	-	1,722
Computer equipment	11	-	11
Office equipment	6	-	6
Vehicles	27	(1)	26
Leasehold improvements	4	-	4
	<u>\$ 234,273</u>	<u>\$ (655)</u>	<u>\$ 233,618</u>

c) DGP assets

A summary of the Company's proportionate interest in DGP assets is as follows:

June 30, 2011	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	\$ 1	\$ -	\$ 1
Computer equipment	4	-	4
Automotive	80	(4)	76
Site equipment	29	(1)	28
	<u>\$ 114</u>	<u>\$ (5)</u>	<u>\$ 109</u>

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14) GEOTHERMAL DEVELOPMENT COSTS

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

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

At June 30, 2011, the Company's expenditures on geothermal development properties in the year are as follows:

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14) GEOTHERMAL DEVELOPMENT COSTS (Continued)

	Balance June 30, 2010	Acquisition Costs	Deferred Exploration Costs	Depletion	Effect of Reporting Currency Translation	Cost Written Off	Balance June 30, 2011
USA - Nevada							
McCoy	\$ 7,714	\$ -	\$ 179	\$ -	\$ 812	\$ -	\$ 8,705
Desert Queen	3,093	-	159	-	326	-	3,578
Columbus Marsh	831	-	8	-	53	(892)	-
Beowawe	444	-	5	-	29	(478)	-
Panther Canyon	316	-	34	-	29	(379)	-
Baltazar Hot Springs	406	-	20	-	26	(452)	-
Buffalo Valley	642	-	40	-	60	(742)	-
Dixie Valley (White Rock Canyon)	1,081	-	9	-	69	(1,136)	23
Granite Springs	514	-	71	-	58	-	643
North Valley	-	-	-	-	-	-	-
Hawthorne	797	-	-	-	85	-	882
USA - Utah							
Thermo	575	-	2	-	60	-	637
USA - Oregon							
Glass Buttes	185	-	-	-	(41)	(144)	-
Chile							
Maule	11,582	-	5,974	-	1,392	-	18,948
Pellado	457	-	3,931	-	364	-	4,752
El Medeno	-	-	2,030	-	85	-	2,115
Tres Puntas	-	-	59	-	3	-	62
Los Cristales	-	-	66	-	4	-	70
Peru							
Huaynaputina	94	-	37	-	14	-	145
Casiri	99	-	33	-	15	-	147
Sabancaya	95	-	38	-	12	-	145
Ccollo	98	-	38	-	9	-	145
Ticsani	100	-	40	-	9	-	149
San Pedro	12	-	36	-	1	-	49
Crucero	13	-	139	-	26	-	178
Pinchollo	-	-	10	-	-	-	10
Ancoccollo	-	-	42	-	(3)	-	39
Pasto	-	-	40	-	1	-	41
Sara Sara	-	-	47	-	1	-	48
Loriscota	-	-	55	-	1	-	56
Monterrey	-	-	36	-	-	-	36
Yungay	-	-	41	-	1	-	42
	29,148	-	13,219	-	3,501	(4,223)	41,645
Geothermal property in production							
Iceland - Geothermal property rights and development costs	-	84,827	-	(590)	2,286	-	86,523
USA - Soda Lake	2,980	-	667	(45)	367	(83)	3,886
	\$ 32,128	\$ 84,827	\$ 13,886	\$ (635)	\$ 6,154	\$ (4,306)	\$ 132,054

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14) GEOTHERMAL DEVELOPMENT COSTS (Continued)

The Company owns 100% of its geothermal properties in USA, Peru, Italy and Chile. The geothermal properties in Chile were acquired pursuant to the agreement disclosed in note 14(b).

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.

During fiscal 2011, the Company has written-off exploration costs for those projects that were abandoned or do not have any current value. A total of \$4.3 million was written-off in the period.

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. 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.

Under the terms of the formal agreement, the Company contributed \$0.2 million to the University of Chile to finance projects of mutual interest in the geothermal field.

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. There are no financial commitments associated with the award of this property.

In May 2010, an exploitation permit was issued on the Maule property.

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

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

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

c) Peru

In April 2011 the Company was awarded the Crucero and Loriscota concessions. The Crucero and Loriscota geothermal concession areas lie in Southern Peru's prospective region of volcanoes and geothermal systems of significant size, 50 km northwest of the town of Candarave. Crucero and its adjacent lease, Loriscota, cover a seven kilometer long area of silica sinter and hot springs that follow extensional faults believed related to a strike-slip pull-apart basin.

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14) GEOTHERMAL DEVELOPMENT COSTS (Continued)

c) Peru (continued)

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

d) Iceland

On acquisition of HS Orka, the Company obtained the geothermal rights to the existing plants and expansion and exploration properties.

15) HYDRO AND WIND DEVELOPMENT COSTS

	Upper Toba Valley Project	Bute Inlet Project	Dokie Wind Expansion	Other Hydro Development Projects	Total
Balance, May 13, 2011	\$ 18,361	\$ 52,544	\$ 18,636	\$ 3,149	\$ 92,690
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	84	14	417
Total cost since May 13, 2011	94	276	84	(77)	377
Balance, June 30, 2011	\$ 18,455	\$ 52,820	\$ 18,720	\$ 3,072	\$ 93,067

Following the acquisition of Plutonic by the Company, the Company holds the rights to 35 run-of-river hydroelectric power development projects, excluding Toba Montrose, 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, which 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

Plutonic and an affiliate of General Electric ("GE") 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 an EPA 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 Sallery Bay and Malaspina. The Dagleish power site remains a potentially viable standalone project should the BC Hydro transmission line constraints between Sallery Bay and Malaspina be removed in the future. In April 2010, Plutonic and GE jointly entered into a 40 year EPA 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.

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15) HYDRO AND WIND DEVELOPMENT COSTS (Continued)

a) Upper Toba Valley Project (continued)

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

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 EPA on the Bute Inlet Project would not move ahead at that time in order to allow for further data collection, studies, due diligence and market assessment. 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) Dokie Wind Expansion

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 scheduled 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.

d) Other hydro development projects

The Company has a number other run-of-river power sites with a combined potential annual generation of approximately 1,820,000 MWh of electricity. These 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 power sites. When projects are no longer considered viable, the costs associated with them are written off. A total of \$91,913 was written-off in the period ended June 30, 2011.

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 south-western BC.

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16) OTHER INTANGIBLE ASSETS

June 30, 2011	Cost	Accumulated Amortization	Net Book Value
TMGP intangibles	\$ 5,663	\$ (20)	\$ 5,643
DGP intangibles	5,816	(12)	5,804
Plutonic intangibles	42	(2)	40
HS Orka intangibles	1,464	(79)	1,385
	<u>\$ 12,985</u>	<u>\$ (113)</u>	<u>\$ 12,872</u>

a) TMGP and DGP intangibles:

The TMGP and DGP intangibles arise from IBA and MOU agreements signed with the Company's First Nations partners. The costs associated with the IBAs and MOUs are amortized over the life of the EPA with BC Hydro, 35 years and 25 years respectively for TMGP and DGP.

b) HS Orka and Plutonic Power intangibles

The intangibles balance for HS Orka and Plutonic relate to software costs.

17) GOODWILL

	June 30, 2011
HS Orka acquisition - August 17, 2010	\$ 7,392
Plutonic acquisition - May 13, 2011	3,953
Foreign exchange movement from acquisition dates	324
	<u>\$ 11,669</u>

18) LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

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

	2011	2010
Bonds	\$ 115,324	\$ 49,339
Credit agreement	22,810	-
HS Orka loans	175,499	-
TMGP credit facilities	195,365	-
DGP credit facility	96,984	-
Capital lease obligations	58	80
	<u>606,040</u>	<u>49,419</u>
Less current portion:		
Debt	22,231	-
Capital lease obligations	9	23
	<u>22,240</u>	<u>23</u>
Long-term portion	<u>\$ 583,800</u>	<u>\$ 49,396</u>

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18) LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS (Continued)

a) Bonds

On September 3, 2010, the Company acquired an additional 14.32% interest in HS Orka (note 5) by assuming a bond with a principal value of ISK 6.3 billion (approximately \$53.6 million) repayable in 2016 with interest at 3.5% per annum. The principal amount is indexed based on movement in aluminum prices on the London Metal Exchange and is subject to a cap and a floor. The bond is secured by certain shares of HS Orka acquired in the transaction. The Company has the option on up to four occasions to repay up to 20% of the nominal principal and accrued interest outstanding with no prepayment penalty. Up to two interest payments may be deferred over the term of the bond. One such deferral remained at June 30, 2011. Deferred interest payments will be added to the principal amount and interest will be accrued thereon.

The Company has three other bonds issued in fiscal 2010 with an aggregate principal amount of \$70.3 million. The principal amount of these bonds will mature and become due on December 14, 2016 with interest at 1.5% per annum. The principal amount is indexed based on movement in aluminum prices on the London Metal Exchange. The bonds are secured by 2,974,466,365 shares of HS Orka acquired in the transaction. The Company has the option to repay the principal amount at any time, in whole or in part, without penalty. Up to three interest payments may be deferred over the term of the bond. Deferred interest payments will be added to the principal amount and interest will be accrued thereon. For the purposes of calculating interest payable at the end of each year, any pre-payments of the principal amounts during the preceding twelve month period shall also be adjusted based on the average monthly aluminum price for each month prior to the prepayment. On December 14, 2010, the first interest payments were deferred. As a result, \$1.1 million of accrued interest was added to the principal balance.

The principal amounts of all the bonds outstanding at each anniversary date and any prepayments thereof made by the Company in the prior 12-month period are adjusted by a formula incorporating the average of the three-months forward selling price of aluminum, as posted by the London Metal Exchange for the first business day of each month, for the prior 12-month period. Interest is payable on each anniversary date of the bonds on the adjusted average principal amounts outstanding during the 12-month period prior to the anniversary date. Deferred interest payments will be added to the principal amount and interest will be accrued thereon. For the purposes of calculating interest payable at the end of each year, any prepayments of the principal amounts during the preceding twelve month period shall also be adjusted based on the average monthly aluminum price for each month prior to the prepayment.

The indexation of the principal amount of the bonds to the price of aluminum described above, and the prepayment option represent embedded derivatives. As the Company has chosen to classify the bonds as financial liabilities held for trading, the embedded derivatives have not been separated from the host financial instruments and the hybrid liabilities are being carried at fair value as follows:

Balance, June 30, 2010	\$	49,339
Fair value of additional bond assumed		43,240
Change in fair value		16,217
Foreign exchange loss		6,528
Balance, June 30, 2011	\$	115,324

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18) LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS (Continued)

a) Bonds (continued)

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

Discount rates	7.80% - 11.70%
Aluminum prices (\$ per tonne)	\$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\$30 million with interest at the rate of 8% per annum for a term of 24 months from original loan date of July 5, 2010 (see note 22 Related Party Transactions).

c) HS Orka's loans

Long-term borrowings assumed with the acquisition of HS Orka.

Currency	Interest	Year of Maturity	Balance
USD	variable 0.96 - 3.73%	2019 - 2031	\$ 28,860
EUR	variable 2.83 - 3.88%	2019 - 2031	34,714
SEK	variable 3.56 - 4.06%	2021 - 2031	8,273
CHF	variable 0.46 - 3.57%	2021 - 2031	46,411
JPY	variable 0.72 - 3.61%	2021 - 2031	16,591
GBP	variable 1.21%	2021	3,734
CAD	variable 2.36 - 2.45%	2022 - 2023	10,363
ISK	fixed 3.87 - 5.62%	2017	26,553
			<u>\$ 175,499</u>

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

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

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18) LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS (Continued)

c) HS Orka's loans (continued)

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

Company's fiscal year		
2012	\$	18,830
2013		19,702
2014		19,858
2015		20,020
2016		20,251
Thereafter	\$	82,155

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

d) TMGP's loans

(i) TMGP has a C\$370 million fixed interest rate loan and a C\$100 million floating rate loan, each maturing in 2045. The interest rate on fixed interest rate loan is 6.173%. The floating interest rate loan interest is based on the three month Canadian dollar bankers' acceptance rates plus an applicable credit spread. The credit spread is 1.35% per annum for the first four years of the loan, and 1.60% for the remaining term of the loan. There was no interest payable under the terms of the loan at June 30, 2011. The Company has managed its interest rate fluctuation exposure to this floating interest rate loan by securing an interest rate swap (see note 19).

(ii) Principal repayments for the loan are to be made annually in the month of December of each year, commencing on December 31, 2011 until 2045 based on a fixed repayment schedule. The

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

Company's fiscal year		
2012	\$	1,677
2013		1,784
2014		1,897
2015		2,018
2016		2,146
Thereafter	\$	185,398

(iii) Security pledged:

The two loans are secured by a first charge on all of the property and assets of TMGP. The Company's proportionate share of TMGP's long-term debt is non-recourse to the Company.

e) DGP's loan

(i) DGP has a C\$175 million fixed rate loan with a maturity date of the earlier of the 20th anniversary of the Term Conversion Date and expiry of the EPA, which is anticipated to be no earlier than December 31, 2030. The annual interest rate on this loan is fixed at 7.243%. There was no interest payable under the terms of the loan at June 30, 2011.

Alterra Power Corp.

Notes to the Consolidated Financial Statements

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

18) LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS (Continued)

e) DGP's loan (continued)

(ii) Principal repayments:

Principal repayments for the loan are to be made semi-annually until 2030 on the last business day of June and December of each year, commencing on June 30, 2011, based on a fixed repayment schedule. The Company's proportionate interest in the minimum principal payments over the next five years and thereafter are as follows:

Company's fiscal year		
2012	\$	1,735
2013		2,240
2014		2,569
2015		2,743
2016		2,612
Thereafter	\$	80,433

DGP may, at its option, prepay the applicable loan in whole or in part.

(iii) Security pledged:

The loan is secured by demand debentures and a first charge on all of the property, assets and agreements of DGP. The Company's proportionate share of DGP's long-term debt is non-recourse to the Company.

(iv) Restricted cash:

The funds from the loan and revenue received are held in a restricted escrow account until the loan is converted from a construction loan to an operating loan. On a monthly basis DGP applies for funds to be released from the escrow accounts to pay for expenditures. At June 30, 2011, a total of \$4.5 million was being held in escrow, of which the Company's proportionate interest was \$2.3 million.

19) CURRENCY AND INTEREST RATE SWAPS

HS Orka and TMGP use interest rate swaps to manage a portion of their exposure to fluctuations in interest rates on floating rate loans and currency swaps to manage a portion of their exposure to foreign exchange risks. The swap contracts are derivative financial instruments and are recognized on the balance sheet and measured at fair value with changes in fair value recognized in net earnings/loss, except where swap contracts are designated as a cash flow hedge, in which case the effective portion is recognized in accumulated other comprehensive income (loss). The currency and interest rate swaps consist of:

	June 30, 2011	
TMGP interest rate swap	\$	16,310
HS Orka currency and interest rate swaps		9,935
Total	\$	26,245

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19) CURRENCY AND INTEREST RATE SWAPS (Continued)

a) TMGP interest rate swap

TMGP has an interest rate swap contract from November 1, 2010 to June 30, 2045 to hedge the floating interest payments relating to the floating rate loan (note 18). Pursuant to the interest rate swap agreement, TMGP will receive interest on a notional amount at the three month Canadian dollar bankers' acceptance rate from the counterparty and will pay interest on the notional amount at an interest rate of 5.341% per annum. The notional amount is C\$100 million and is reduced in amounts based on the scheduled principal repayments on the C\$100 million floating rate loan over the life of the interest rate swap. TMGP and the counterparty net settle the amount owing on a quarterly basis which commenced December 31, 2010.

TMGP designated the interest rate swap as an accounting cash flow hedge of the interest rate exposure on the floating rate loan for the period November 1, 2010 to June 30, 2045. While the fair value of the interest rate swap contract continues to be recognized on the balance sheet at each period end, the changes in the fair value of the effective portion of the interest rate swap contract is recorded from July 15, 2008 onwards in accumulated other comprehensive income until such time as the gain or loss is realized, at which time the gain or loss is reclassified to interest and other financing costs in the statement of operations. The changes in the fair value of the ineffective portion of the interest rate swap contract are recorded in change in fair value of derivatives in the statement of operations.

The Company is liable for the first C\$13.0 million of any gains or losses in the event of an early termination of the contract. Any gains or losses resulting from the early termination of the contract in excess of C\$13.0 million would continue to be allocated 60% to GE and 40% to the Company. This results in the Company being allocated 100% of the unrealized gains and losses from the change in fair value of the long dated interest rate swap contract from the inception of the long dated interest rate swap up to a maximum of C\$13.0 million and 40% of the unrealized gains and losses in excess of C\$13.0 million.

The Company's proportionate interest in the interest rate swap settlements recognized in interest and other financing costs in the statement of operations was \$224,983 for the period from May 13 to June 30, 2011. The Company's proportionate interest in the realized gain and the unrealized gain recognized in the statement of operations was \$147 and \$2,319 respectively for the period from May 13 to June 30, 2011. The Company's proportionate interest in the unrealized loss recognized in the statement of operations was \$393,165 for the period from May 13 to June 30, 2011.

b) HS Orka currency and interest rate swap contracts

HS Orka does not designate any of its swap contracts as cash flow hedges, and therefore records movements in the fair value through the statement of operations.

Alterra Power Corp.

Notes to the Consolidated Financial Statements

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20) DEFERRED REVENUE

The Soda Lake geothermal power plant has a power purchase agreement (“PPA”) with NV Energy to sell electricity produced by the plant under established contract rates for the first 30 years of operations, ending in 2020. The PPA provides for both energy and capacity payments. The energy rate component is primarily a base contract rate adjusted annually for inflation. The capacity rate is primarily fixed for years one through ten, fixed to a higher rate for years eleven through twenty and fixed at the lowest contract rate for years twenty-one through thirty. During years eleven through twenty a component of revenue is deferred to be released over years twenty-one to thirty. The Company is in the final ten years of the PPA.

21) SHARE CAPITAL

a) Capital stock

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

On July 27, 2010, the Company completed a public share offering and issued 40.3 million common shares at a price of C\$1.12 per share for aggregate gross proceeds of approximately \$43.6 million.

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 Consolidated Financial Statements

For the years ended June 30, 2011 and 2010

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

21) SHARE CAPITAL (Continued)

b) Stock options (continued)

The changes in stock options issued are as follows:

	2011	
	Number of options	Weighted average exercise price (C\$/option)
Outstanding, June 30, 2010	3,276,667	1.55
Granted	1,005,000	1.09
Replacement options on acquisition of Plutonic	12,784,404	1.69
Exercised	(652,120)	0.68
Forfeited	(1,099,382)	1.25
Outstanding, June 30, 2011	15,314,569	1.69
Exercisable, June 30, 2011	11,706,489	1.80
	2010	
	Number of options	Weighted average exercise price (C\$/option)
Outstanding, July 1, 2009	-	-
Granted	3,340,000	1.55
Exercised	(33,333)	1.50
Forfeited	(30,000)	1.50
Outstanding, June 30, 2010	3,276,667	1.55
Exercisable, June 30, 2010	1,069,992	1.55

As of June 30, 2011, incentive stock options represent 3.3% (June 30, 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 June 30, 2011 is nil (June 30, 2010 - nil).

Alterra Power Corp.

Notes to the Consolidated Financial Statements

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

21) SHARE CAPITAL (Continued)

b) Stock options (continued)

The following table summarizes information about stock options outstanding and exercisable at June 30, 2011:

Grant Date	Expiry Date	Options Outstanding			Options Exercisable	
		Options	Exercise Price (C\$/option)	Weighted Remaining Contractual Life (in years)	Number	Exercise Price (C\$/option)
July 25, 2006	July 24, 2011	357,000	0.89	0.07	357,000	0.89
December 18, 2006	December 17, 2011	176,120	1.18	0.47	176,120	1.18
March 27, 2007	March 26, 2012	833,000	1.76	0.74	833,000	1.76
March 28, 2007	March 27, 2012	2,577,540	1.79	0.74	2,577,540	1.79
April 20, 2007	April 19, 2012	190,400	2.22	0.81	190,400	2.22
July 11, 2007	July 10, 2012	65,450	3.28	1.03	65,450	3.28
September 13, 2007	September 12, 2012	113,050	2.90	1.21	113,050	2.90
April 15, 2008	April 14, 2013	1,868,300	3.24	1.79	1,868,300	3.24
September 8, 2008	July 7, 2011	43,649	2.69	0.02	43,649	2.69
September 8, 2008	September 7, 2013	285,600	2.69	2.19	261,814	2.69
November 25, 2008	November 24, 2013	71,400	0.91	2.41	61,483	0.91
March 24, 2009	July 7, 2011	9,736	0.88	0.02	9,736	0.88
March 24, 2009	April 27, 2012	71,400	0.88	0.83	53,550	0.88
March 24, 2009	May 12, 2012	214,200	0.88	0.87	160,650	0.88
March 24, 2009	March 24, 2014	1,398,787	0.88	2.73	1,057,733	0.88
July 7, 2009	July 7, 2014	1,770,000	1.50	3.02	1,206,658	1.50
September 28, 2009	May 12, 2012	297,500	1.44	0.87	165,278	1.44
September 28, 2009	September 27, 2014	297,500	1.44	3.25	165,278	1.44
November 10, 2009	November 9, 2014	153,720	1.32	3.36	125,611	1.32
December 18, 2009	December 18, 2014	100,000	1.83	3.47	66,664	1.83
January 28, 2010	April 27, 2012	71,400	1.45	0.83	33,720	1.45
January 28, 2010	May 12, 2012	214,200	1.45	0.87	101,150	1.45
January 28, 2010	January 28, 2015	1,589,328	1.45	3.58	767,170	1.45
February 8, 2010	February 8, 2015	350,000	1.71	3.61	233,332	1.71
February 15, 2010	February 15, 2015	50,000	1.66	3.63	33,333	1.66
May 12, 2010	May 11, 2015	437,989	1.29	3.87	171,890	1.29
May 19, 2010	May 19, 2015	200,000	1.46	3.89	133,334	1.46
May 25, 2010	May 24, 2015	23,800	1.24	3.90	8,596	1.24
June 22, 2010	June 22, 2015	300,000	1.40	3.98	166,666	1.40
July 5, 2010	July 5, 2015	100,000	1.32	4.02	33,333	1.32
September 28, 2010	September 28, 2015	50,000	1.21	4.25	16,667	1.21
November 29, 2010	November 28, 2015	59,500	0.94	4.42	0	0.94
December 15, 2010	December 15, 2015	360,000	1.39	4.46	120,000	1.39
January 31, 2011	January 30, 2016	119,000	0.95	4.59	0	0.95
May 13, 2011	May 13, 2016	250,000	0.90	4.87	83,334	0.90
June 22, 2011	June 22, 2016	245,000	0.72	4.98	245,000	0.72
		15,314,569	1.69		11,706,489	1.80

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Notes to the Consolidated Financial Statements

For the years ended June 30, 2011 and 2010

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21) SHARE CAPITAL (Continued)

b) Stock options (continued)

During the year ended June 30, 2011, 1,005,000 (2010 – 3,340,000) options were granted at a weighted average fair value of C\$0.35 per common share (2010 - C\$0.46 per common share). The Company amortizes the fair value of stock options on a graded basis over the respective vesting period of the stock options.

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

	<u>2011</u>	<u>2010</u>
Balance Sheets		
Geothermal development costs	\$ 48	\$ 111
Hydro and wind development costs	2	-
	<u>50</u>	<u>111</u>
Statements of Operations		
Production and cost of sales	21	1
General and administrative	652	665
Property investigations	104	99
Investor relations	33	112
Foreign exchange	21	-
	<u>831</u>	<u>877</u>
Total amortization of stock option fair value	\$ 881	\$ 988

The fair value of stock options for all options issued was estimated at the grant date based on the Black-Scholes Option Pricing Model, using the following weighted average assumptions:

	<u>2011</u>	<u>2010</u>
Expected dividend yield (%)	Nil	Nil
Average risk-free interest rate (%)	0.97% - 2.74%	1.11% - 1.73%
Expected life (years)	4.42	2.50
Expected volatility (%)	37% - 55%	39% - 52%
Expected rate of forfeiture	5%	5%

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the estimated fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

Alterra Power Corp.

Notes to the Consolidated Financial Statements

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22) RELATED PARTY TRANSACTIONS

During the 2011 fiscal year, the Company entered into a credit agreement with the Company's Chairman, pursuant to which the Company is able to borrow up to C\$30 million. Interest at the rate of 8% per annum, compounded daily, is 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 June 30, 2011, \$22.8 million of the principal amount has been advanced to the Company. During the year ended June 30, 2011 interest, standby and drawdown fees totalling \$1.8 million were paid (2010 - nil).

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

23) FINANCIAL INSTRUMENTS

Fair value

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

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

The fair value of the Company's proportionate interest in the TMGP and DGP fixed rate long-term loans and the fair value of the Company's HS Orka loans were estimated by reference to market interest rates at June 30, 2011 for instruments with similar terms and characteristics.

Fair value hierarchy

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

- (1) Level 1: quoted prices (unadjusted) in active markets or identical assets or liabilities;
- (2) Level 2: valuation techniques using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- (3) Level 3: valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Alterra Power Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2011 and 2010

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23) FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (continued)

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

The amounts included in Level 3 in the fair value hierarchy are for financial instruments held at HS Orka, which the Company obtained control of on August 17, 2010 (note 3). Embedded derivatives that expire in the year 2026 are classified as level 3 as the forward market for aluminum only reaches a maximum of ten years. A reconciliation of Level 3 amounts from the date control was obtained to June 30, 2011 is as follows:

	August 16, 2010	Gain	June 30, 2011
Assets:			
Embedded derivatives	\$ -	\$ 18,301	\$ 18,301
Bonds receivable	4,204	417	4,621
Investment in associates	237	-	237
	\$ 4,441	\$ 18,718	\$ 23,159

Gains to the bonds receivable were recognized in Interest and other income on the statement of operations. Gains to the embedded derivatives were recognized in Change in fair value of derivatives on the statement of operations. There were no transfers into or out of level 3 during the year.

Changes in one or more of the Level 3 inputs to reasonably possible alternative assumptions would change the fair value measurement significantly. Changes to the fair value of the bonds receivable and embedded derivatives would be recognized through net income.

The following table shows the fair value measurement of the level 3 bonds receivable with changes to the interest rates:

Change in interest rates	-1.00%	-0.50%	0.00%	+0.5%	+1.00%
Fair value of bond	\$ 4,909	\$ 4,762	\$ 4,621	\$ 4,486	\$ 4,355

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23) FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (continued)

The following table shows the fair value measurement of the level 3 embedded derivatives with changes to the inputs:

		Change in aluminium price (over all forward curve)				
		-10.00%	-5.00%	0.00%	+5.00%	+10.00%
Change in interest rate curve	-0.50%	\$ (5,358)	\$ 7,308	\$ 19,973	\$ 32,639	\$ 45,305
	-0.25%	(5,794)	6,667	19,127	31,588	44,048
	0.00%	(6,220)	6,040	18,301	30,561	42,821
	+0.25%	(6,637)	5,428	17,493	29,558	41,623
	+0.50%	(7,045)	4,829	16,704	28,578	40,452

Financial Risk Management

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

Credit risk

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Over 65% of the Company's revenue is attributable to sales transactions with four customers. The Company has set a credit policy where all new customers are evaluated. Payment history of new customers is checked and credit limits are set. The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The carrying amount of financial assets (as presented on the balance sheet) is the Company's maximum exposure to credit risk at June 30, 2011.

The exposure to credit risk for trade and other receivables at the reporting date by significant customer was:

		2011
BC Hydro	\$	5,309
NV Energy		1,310
Iceland Industrial and power companies		4,363
Iceland Residential customers		3,338
Total	\$	14,320

The aging of trade receivables and impairment at the reporting date was:

	Gross value	Impairment
Not past due	\$ 13,650	\$ 27
Past due 0-30 days	175	21
Past due 31-60 days	129	27
Past due 61-90 days	126	28
Past due 91 days and older	240	20
Total	\$ 14,320	\$ 123

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23) FINANCIAL INSTRUMENTS (Continued)

Credit risk (continued)

The movement in the allowance for impairment in respect of receivables during the year was as follows:

Balance at June 30, 2010	\$	-
Impairment loss recognized		123
Balance at June 30, 2011	\$	123

Liquidity risk

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

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

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

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

The following are the contractual maturities of financial liabilities, including estimated interest payments:

	Carrying amount	Contractual cash flows	Less than one year	1-2 years	2-5 years	After 5 years
Accounts payable and accrued liabilities	\$ 32,694	\$ 32,694	\$ 32,694	\$ -	\$ -	\$ -
Other liabilities	870	870	870	-	-	-
Long-term debt and capital lease obligations	606,040	1,085,833	78,251 *	55,980	163,856	787,746
Currency and interest rate swaps	26,245	29,185	4,713	4,245	11,135	9,092
Total	\$ 665,849	\$ 1,148,582	\$116,528	\$60,225	\$ 174,991	\$ 796,838

* Includes amounts paid subsequent to June 30, 2011 to settle the related party credit agreement (note 29)

Market risk

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

a) Interest rate risk

Interest rate risk is the risk that the future cash flows and fair values of the Company's investments and debts will fluctuate because of changes in market interest rates.

Alterra Power Corp.

Notes to the Consolidated Financial Statements

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23) FINANCIAL INSTRUMENTS (Continued)

Market risk (continued)

a) Interest rate risk (continued)

Financial instruments with fixed interest rate risk

The following fixed interest rate instruments are measured at fair value and as a result are subject to interest rate risk.

		2011
Bonds receivable	\$	4,621
Bonds payable	\$	115,324

Fair value sensitivity analysis for fixed rate instruments

A change of 100 basis points ("BPS") in interest rates at the reporting date would have increased (decreased) income or loss and equity after tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Comprehensive income increase (decrease)		Equity increase (decrease)	
	100 BPS increase	100 BPS decrease	100 BPS increase	100 BPS decrease
June 30, 2011				
Bonds receivable	\$ (266)	\$ 288	\$ (266)	\$ 288
Bonds payable	5,085	(5,380)	5,085	(5,380)
Total	\$ 4,819	\$ (5,092)	\$ 4,819	\$ (5,092)

Financial instruments with floating interest rate risk

The following non-derivative financial instruments are subject to interest rate risk on cash flow:

		2011
Cash and cash equivalents	\$	73,690
Restricted cash		6,796
HS Orka loan	\$	148,945

Cash flow sensitivity analysis for floating interest rate instruments

TMGP has designated its interest rate swap and variable rate debt as a cash flow hedge. Accordingly, the Company is not significantly exposed to cash flow interest rate risk from its interest in this loan.

A change of 100 BPS in interest rate at the reporting date would have increased (decreased) income or loss and equity after tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

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23) FINANCIAL INSTRUMENTS (Continued)

Market risk (continued)

a) Interest rate risk (continued)

	Comprehensive income		Equity increase (decrease)	
	increase (decrease)		increase (decrease)	
June 30, 2011	100 BPS increase	100 BPS decrease	100 BPS increase	100 BPS decrease
Cash and cash equivalents	\$ 737	\$ (737)	\$ 737	\$ (737)
Restricted cash	68	(68)	68	(68)
HS Orka loan	(1,448)	1,448	(1,448)	1,448
Total	\$ (643)	\$ 643	\$ (643)	\$ 643

Derivative financial instruments

	2011	
Embedded derivatives	\$	19,413
TMGP interest rate swap		16,310
Other interest rate swaps	\$	9,935

Sensitivity analysis for derivative instruments

A change of 100 BPS in interest rate at the reporting date would have increased (decreased) income or loss and equity after tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Comprehensive income		Equity increase (decrease)	
	increase (decrease)		increase (decrease)	
June 30, 2011	100 BPS increase	100 BPS decrease	100 BPS increase	100 BPS decrease
Embedded derivatives	\$ (3,300)	\$ 3,614	\$ (3,300)	\$ 3,614
TMGP interest rate swap	5,506	(6,705)	5,506	(6,705)
Other interest rate swaps	823	(786)	823	(786)
Total	\$ 3,029	\$ (3,877)	\$ 3,029	\$ (3,877)

At June 30, 2011, \$49,557 of the increase and \$60,343 of the decrease in comprehensive income resulting from a 100 BPS change in interest rates for the TMGP interest rate swap would be recorded in net earnings/loss, with the remainder being recorded as part of other comprehensive income/loss.

b) Currency risk

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

The functional currency of HS Orka is the ISK and, therefore, HS Orka is exposed to currency risk on its sales, purchases and borrowings that are denominated in currencies other than ISK.

Alterra Power Corp.

Notes to the Consolidated Financial Statements

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23) FINANCIAL INSTRUMENTS (Continued)

b) Currency risk (continued)

The currencies in which these transactions are primarily denominated are the U.S. dollar, Canadian dollar, Swiss franc, Euro and Japanese yen. HS Orka does not in general hedge against foreign exchange rate risk, but may hedge single, large transactions with forward foreign exchange agreements for shorter periods. HS Orka does not hedge its currency risk on its long-term debt denominated in foreign currencies.

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

Gains and losses arising from translation of the consolidated financial statements into U.S. dollars are recognized in other comprehensive income (loss).

The Company's exposure to foreign currency risk, based on nominal amounts, was as follows:

	ISK	CHF	EUR	CDN	JPY	SEK	Other currencies
Cash and cash equivalents	\$ 36,634	\$ -	\$ 178	\$ 7,022	\$ -	\$ 15	\$ 668
Restricted cash	4,500	-	-	2,296	-	-	-
Trade and other receivables	6,004	-	-	434	-	-	6
Long-term receivable	4,060	-	-	-	-	-	-
Bonds receivable	4,621	-	-	-	-	-	-
Lease receivable	-	-	-	111,912	-	-	-
Investments in associates	237	-	-	-	-	-	-
Accounts payable and accrued liabilities	(15,692)	-	(69)	(11,638)	(1,843)	-	(598)
Other liabilities	-	-	-	(870)	-	-	-
Long-term debt and capital lease obligations	(81,518)	(46,113)	(34,539)	(327,225)	(18,130)	(7,848)	(3,977)
Currency and interest rate swaps	25,649	(16,588)	(5,032)	(16,310)	(5,859)	-	(2,351)
Net foreign exchange rate risk	\$ (15,505)	\$(62,701)	\$(39,462)	\$(234,379)	\$(25,832)	\$(7,833)	\$ (6,252)

The following significant exchange rates applied during the year:

	End of year exchange rate 2011
ISK	115.68
CHF	0.83
EUR	0.69
CDN	0.98
JPY	80.98
SEK	6.33

A 10 percent strengthening or weakening of the U.S. dollar against the following currencies at June 30, 2011 would have increased (decreased) income or loss after tax or other comprehensive income by the following amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

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Notes to the Consolidated Financial Statements

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

23) FINANCIAL INSTRUMENTS (Continued)

b) Currency risk (continued)

	Income (loss)		Other comprehensive income (loss)	
	Strengthening	Weakening	Strengthening	Weakening
ISK	\$ -	\$ -	\$ 1,410	\$ (1,410)
CHF	5,700	(5,700)	-	-
EUR	3,587	(3,587)	-	-
CDN	21,307	(21,307)	-	-
JPY	2,348	(2,348)	-	-
SEK	712	(712)	-	-
Total	\$ 33,654	\$ (33,654)	\$ 1,410	\$ (1,410)

c) Commodity price risk

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

TMGP and DGP have EPA's with BC Hydro for 35 years and 25 years respectively. The EPA's each consist of an agreed pricing structure plus inflation, therefore the Toba Montrose facility and the Dokie Wind Farm are not exposed to commodity price risk.

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

As disclosed in note 18, the bonds issued as partial consideration for the purchase of HS Orka are also subject to adjustments based on the price of aluminum. Therefore, the principal amounts owed on the due date, and the annual interest payments thereon, will fluctuate with the price of aluminum.

A 10% increase or decrease in the price of aluminum at June 30, 2011 would have increased or decreased net income by \$20.4 million.

24) CAPITAL DISCLOSURES

It is the Company's objective when managing capital to safeguard its ability to continue as a going concern in order that it may continue to explore and develop its projects and continue its operations for the benefit of its shareholders. The Company objectives when managing capital are to:

- minimize dilution to existing equity shareholders of the Company with the continued expansion, exploration and development of its properties until the Company can generate sufficient cash flow to finance all of its growth internally; and
- maintain a capital structure which optimizes the cost of capital at acceptable risk.

The Company manages its common shares and long-term debt as capital. The Company intends to fund its planned expansion, exploration and development activities on its properties from working capital, project financing and distributions from existing operations.

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24) CAPITAL DISCLOSURES (Continued)

HS Orka, TMGP and DGP are subject to financial covenants regarding their respective loan agreements.

25) COMMITMENTS

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

Fiscal 2012	\$	4,555
Fiscal 2013		4,229
Fiscal 2014		4,125
Fiscal 2015		4,089
Fiscal 2016		4,124
Thereafter		22,464
Total commitments	\$	43,586

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

26) INCOME TAXES

At June 30, 2011, the Company had non-capital losses for income tax purposes of approximately \$188.3 million (2010 - \$25.8 million), expiring in various years to 2031 and available to offset future taxable income in Canada, as well as losses and certain expenditures available to offset future taxable income in the USA, Chile, Sweden, Iceland, Italy, Argentina and Peru respectively.

The tax losses expire as follows:

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26) INCOME TAXES (Continued)

	Canada	US	Chile	Sweden	Iceland	Italy	Argentina	Peru	Total
2012	\$ 144								\$ 144
2013	170								170
2014	1,930							61	1,991
2015							261	225	486
2016						233	39		272
2020					39,691				39,691
2021					6,576				6,576
2025	9,973								9,973
2026	2,670								2,670
2027	18,516								18,516
2028	23,875								23,875
2029	31,815	2,502							34,317
2030	4,835	7,364							12,199
2031	14,003	5,319							19,322
Without expiry			1,768	16,321					18,089
	\$ 107,931	\$ 15,185	\$ 1,768	\$ 16,321	\$ 46,267	\$ 233	\$ 300	\$ 286	\$ 188,291

Reconciliation of income tax computed at statutory rates to the reported income tax provision is as follows:

	2011	2010
Canadian statutory rate	27.5%	29.0%
Loss for the year before tax	\$ (11,184)	\$ (16,446)
Income tax benefit computed at Canadian statutory rates	(3,076)	(4,769)
Foreign tax rates different from statutory rate	(608)	111
Change in statutory rates	756	-
Permanent items and other	(434)	268
Share issuance, financing costs & other	688	(2,032)
Loss on long-term debt	-	(2,569)
Equity (income) loss	(1,663)	3,070
Increase (decrease) in valuation allowances	9,449	5,921
Tax amounts related to other comprehensive income	94	-
Loss on remeasurement of equity interest in HS Orka	1,971	-
Other	(1,220)	-
	\$ 5,957	\$ -

Future income tax assets and liabilities are recognized for temporary differences between the carrying amount of the balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. Significant components of the Company's future tax assets and liabilities, after applying substantively enacted corporate income tax rates, are as follows:

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Notes to the Consolidated Financial Statements

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

26) INCOME TAXES (Continued)

	2011	2010
Future income tax assets		
Plant and equipment	\$ 26,092	\$ 20
Hydro, wind and geothermal development costs	5,214	-
Deferred revenue	702	717
Share issuance & financing costs	3,088	1,701
Non-capital losses	46,438	7,738
Interest swap contracts	4,078	-
Below market contracts - HS Orka	5,713	-
Other items	6,243	2,075
	<u>97,568</u>	<u>12,251</u>
Valuation allowance for future income tax assets	(19,583)	(7,192)
Future income tax assets	<u>77,985</u>	<u>5,059</u>
Future income tax liabilities		
Plant and equipment	(37,988)	(4,789)
Hydro, wind and geothermal development costs	(21,849)	(270)
Long-term lease receivable	(27,984)	-
Investment in associates	(3,739)	-
Investment in partnership	(3,380)	-
Other items	(5,204)	-
Future income tax liabilities	<u>(100,144)</u>	<u>(5,059)</u>
Future income tax liabilities, net	<u>\$ (22,159)</u>	<u>\$ -</u>

27) SEGMENTED DISCLOSURES

The Company has four business segments:

- a) The exploration and development of properties;
- b) Geothermal operations;
- c) Hydro operations; and
- d) Wind operations.

Revenues were generated from our two producing geothermal plants in Iceland, one geothermal plant in the USA, and one wind farm and two run-of-river facilities in Canada during the period ended June 30, 2011, and 100% of the revenues for the 2010 comparative period were derived from the operating plant in Nevada, USA.

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Notes to the Consolidated Financial Statements

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

27) SEGMENTED DISCLOSURES (Continued)

	June 30, 2011					June 30, 2010		
	Exploration and development	Geothermal	Production and Sales Hydro	Wind	Total	Geothermal exploration	Production and sales	Total
CANADA								
Current assets	\$ 36,201	\$ -	\$ 11,567	\$ 5,333	\$ 53,101	\$ 14,064	\$ -	\$ 14,064
Property, plant and equipment	195	-	233,619	109	233,923	256	-	256
Other assets	97,560	-	5,799	117,808	221,167	-	-	-
	133,956	-	250,985	123,250	508,191	14,320	-	14,320
USA								
Current assets	365	1,599	-	-	1,964	317	1,056	1,373
Property, plant and equipment	145	41,898	-	-	42,043	172	34,307	34,479
Geothermal properties	15,952	2,401	-	-	18,353	17,615	1,963	19,578
Other assets	82	12	-	-	94	82	11	93
	16,544	45,910	-	-	62,454	18,186	37,337	55,523
CHILE								
Current assets	698	-	-	-	698	1,333	-	1,333
Property, plant and equipment	582	-	-	-	582	505	-	505
Geothermal properties	25,975	-	-	-	25,975	12,039	-	12,039
Other assets	22	-	-	-	22	50	-	50
	27,277	-	-	-	27,277	13,927	-	13,927
PERU								
Current assets	26	-	-	-	26	80	-	80
Property, plant and equipment	2	-	-	-	2	-	-	-
Geothermal properties	1,203	-	-	-	1,203	511	-	511
Other assets	-	-	-	-	-	682	-	682
	1,231	-	-	-	1,231	1,273	-	1,273
ARGENTINA								
Current assets	8	-	-	-	8	21	-	21
ITALY								
Current assets	197	-	-	-	197	16	-	16
SWEDEN								
Current assets	15	-	-	-	15	12	-	12
ICELAND								
Current assets	19,922	31,542	-	-	51,464	9,656	-	9,656
Property, plant and equipment	100	329,259	-	-	329,359	127	-	127
Geothermal properties	86,523	-	-	-	86,523	-	-	-
Intangibles	-	1,386	-	-	1,386	-	-	-
Other assets	-	56,686	-	-	56,686	-	103,828	103,828
	106,545	418,873	-	-	525,418	9,783	103,828	113,611
Total Assets	\$ 285,773	\$ 464,783	\$ 250,985	\$ 123,250	\$ 1,124,791	\$ 57,538	\$ 141,165	\$ 198,703

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

27) SEGMENTED DISCLOSURES (Continued)

	Year ended June 30, 2011					Year ended June 30, 2010		
	Exploration and development	Geothermal	Production and Sales Hydro	Wind	Total	Geothermal exploration	Production and sales	Total
Revenue								
Energy sales	\$ -	\$ 62,410	\$ 5,696	\$ 721	\$ 68,827	\$ -	\$ 5,056	\$ 5,056
EcoEnergy grants	-	-	714	122	836	-	-	-
Finance income	-	-	-	738	738	-	-	-
Portfolio energy credit sales	-	431	-	-	431	-	-	-
	-	62,841	6,410	1,581	70,832	-	5,056	5,056
Cost of sales	-	35,006	743	852	36,601	-	3,397	3,397
Depreciation	-	9,846	675	17	10,538	-	1,237	1,237
Gross profit	-	17,989	4,992	712	23,693	-	422	422
Expenses								
General and administrative	10,130	-	762	156	11,048	4,964	-	4,964
Professional fees	5,426	-	-	-	5,426	1,957	-	1,957
General exploration	1,523	-	-	-	1,523	1,404	-	1,404
Depreciation and amortization	1,344	-	-	-	1,344	-	-	-
	18,423	-	762	156	19,341	8,325	-	8,325
Other income (expenses)								
Change in fair value of derivatives	-	19,669	-	-	19,669	-	-	-
Change in fair value of long-term debt	-	(16,217)	-	-	(16,217)	-	64	64
Equity income (loss)	-	8,277	-	-	8,277	-	(10,806)	(10,806)
Loss on remeasurement of equity interest in HS Orka	-	(9,812)	-	-	(9,812)	-	-	-
Interest and other income	-	1,828	-	-	1,828	363	-	363
Interest and other financing costs	-	(13,739)	(1,575)	(833)	(16,147)	-	(1,000)	(1,000)
Hydro and wind development costs written-off	(92)	-	-	-	(92)	-	-	-
Geothermal development costs written-off	(4,306)	-	-	-	(4,306)	(945)	-	(945)
Foreign exchange gain (loss)	(132)	1,396	-	-	1,264	3,886	395	4,281
Other expense	-	-	-	-	-	-	(500)	(500)
	(4,530)	(8,598)	(1,575)	(833)	(15,536)	3,304	(11,847)	(8,543)
Loss before income taxes	(22,953)	9,392	2,655	(277)	(11,184)	(5,021)	(11,425)	(16,446)
Future income tax expense	-	(5,957)	-	-	(5,957)	-	-	-
Income (loss) for the period	\$ (22,953)	\$ 3,435	\$ 2,655	\$ (277)	\$ (17,141)	\$ (5,021)	\$ (11,425)	\$ (16,446)

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28) SUPPLEMENTARY CASH FLOW INFORMATION

	2011	2010
Interest received	\$ 360	\$ 317
Interest paid	\$ 7,431	\$ -
Movement in working capital		
	2011	2010
Trade and other receivables	\$ (4,446)	(366)
Inventories	(268)	-
Prepaid expenses	(713)	98
Accounts payable and accrued liabilities	33	2,663
	\$ (5,394)	\$ 2,395

29) SUBSEQUENT EVENTS

Subsequent to June 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, to borrow up to C\$20 million at the same terms as the previous agreement (as disclosed in note 22 above). The Company has borrowed C\$4.0 million against this credit agreement.

On July 15, 2011, the Company signed an IBA with the Homalco First Nation to advance possible hydroelectric opportunities within the traditional territory of the Homalco First Nation which includes the development projects in Bute Inlet.

On August 26, 2011, the Company made an interest payment of approximately ISK 300.0 million on the ISK 6.3 billion bond referred to in note 18(a).

On September 15, 2011, the Company received an operating permit for its planned 80 megawatt ("MW") expansion of the Reykjanes Geothermal Plant in Iceland.