

FINAL TRANSCRIPT

Alterra Power Corp.

First Quarter Results Conference Call

Event Date/Time: May 12, 2017 — 11:30 a.m. E.T.

Length: 54 minutes

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Alterra Power Corp. First Quarter Results Conference Call. At this time, all lines are in listen-only mode.

Following the presentation, we will conduct a question-and-answer session. If at any time during this call you require immediate assistance, please press *, 0 for the Operator.

This call is being recorded on Friday, May 12, 2017.

I would now like to turn the conference over to Mr. Ross Beaty. Please go ahead.

Ross Beaty — Executive Chairman, Alterra Power Corp.

Thank you very much, Operator, and welcome ladies and gentlemen to the first quarter 2017 Alterra Power conference call where we discuss our results.

I draw your attention to the safe harbor claim based on our forward-looking statements, the details of which are in all of our presentations and in our new releases.

As always, our senior management team is gathered in Vancouver to go through our first quarter results with you. And I think we'll get started right away with John Carson, our Chief Executive Officer, and I also draw people's attention to our website where all of the materials he will talking about today are shown for anyone's use.

Over to you, John.

John Carson — Chief Executive Officer, Alterra Power Corp.

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Thanks, Ross, and we had a down quarter this quarter with respect to resource availability. The water wasn't flowing as much, the wind wasn't blowing as much, so we did face that. And that's part of this business.

The last two years we've had exceptional generation. I guess we could say we were due for a down quarter, and we've seen many of our peers in this industry also suffering from a little bit of down resource.

The first quarter, I'll remind folks, is our lowest resource quarter anyway. That's when our water flows the least up in British Columbia.

So with that, though, on the very positive side of things we've had some good growth this quarter, and so a lot of good things to tell you about and things are going very well with that.

I'm going to turn it over to our CFO, Lynda Freeman, to get us started here on our financial results.

Lynda Freeman — Chief Financial Officer, Alterra Power Corp.

Thanks, John, and good morning to everyone. You'll have seen the results Alterra published yesterday, which for the first time reported the performance of all eight of our operating assets.

Although it's only been six weeks since our last call, things continue to be moving forward quickly at Alterra as we work hard to maximize the operating performance from each of our assets, while at the same time advance our development pipeline with the acquisition of Boswell Springs in April an example of such activities.

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Turning our attention to our consolidated results for the quarter. Reflecting 100 percent of HS Orka, in which revenue was up 3.2 million quarter on quarter to 18.2 million due predominantly to increased retail sales and the impact of an increase in aluminum price with 21 percent of HS Orka's revenue linked to the price of aluminum.

Despite the increase in revenues, our gross profit was down. This was a result of an increase in power purchases at HS Orka necessary to mitigate the impact of lower generation.

The other significant movements in the income statement were again related to the increase in aluminum price, with the value of the embedded derivate resulting in a 16 million noncash gain, partially offset by the noncash loss of 6.5 million from the change in fair value of the Sweden bond also partially linked to aluminum price.

Turning to Slide 6 and 7 and our net interest and operating results. Net interest generation was down 8 percent from the comparative quarter, largely due to the low resource availability at Reykjanes.

Although down on Q1, 2016, performance was above budget and up from the fourth quarter as the positive effect from the field enhancement measures are felt. The facility is now generating at approximately 70 megawatts.

Strong generation was enjoyed at Shannon after the wind drought of 2016. And coupled with increased pricing received under the power hedge, Shannon's results were up quarter on quarter.

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The first quarter in British Columbia was cold and wet with the precipitation falling as snow in the Toba valley, resulting in lower than planned generation at Toba Montrose. However, I'd like to remind listeners that the first quarter is the lowest generation at Toba, with only 4 percent of the generation forecast in this season.

Turning to Slide 8, balance sheet highlights. Closing cash at March 31st was 21.5 million, down 10.1 million from year-end, largely due to the development spend on Flat Top and Spartan, both of which are expected to commence full construction in the summer following completion of individual project financing, which are well underway and close to completion.

The Company continues to be in a working capital deficit, largely due to one of the HS Orka holding company bonds for 65 million that is coming due in July. The Company continues to work with a local Icelandic advisor, and is assessing its options with regards to this bond.

As a reminder, this bond is secured on 12.7 percent of HS Orka, and should the Company elect not to refinance the bond and delivers the shares currently held as collateral to the bondholders, we would own 53.9 percent of HS Orka, and would continue to manage and consolidate their result.

Staying with HS Orka, during the period they utilized the short-term credit facility to meet working capital needs. This amount is expected to be repaid from operating results through the remainder of 2017.

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Independent of this, we are working hard to close a local financing, which will provide the capital required for the construction of the Brúarvirkjun 10 megawatt hydro asset, as well as further funding to support field enhancement measures planned at Reykjanes.

That moves us on to Slide 9 and our net interest in long-term debt. HS Orka continues to rapidly pay their debt down, as can clearly be shown in Appendix 1, paying off another 2.2 million in the quarter, reflecting our net interest number.

Across our portfolio of assets we continue to pay all debt and interest payments when due and are in compliance with all debt covenants.

The final slide I'm going to talk to is Slide 10 and use of our equity proceeds. We continue to spend the proceeds as planned and as previously reported, with further spend on platform and PTC qualification expected during the second quarter.

That concludes my presentation, and I hand you back to John.

John Carson

Great. Thanks, Lynda. For operations now we're going to turn over to our VP of operations. You'll remember we used to have Paul Rapp for wind and geothermal here, and though he's still of course lending in and weighing in, he has now moved strictly to the development side. So a little bit of management reassignment that's really going well with that.

Jay, on the meantime, as head of operations, why don't you lead us through this quarter?

Jay Sutton — Vice President, Hydro Power, Alterra Power Corp.

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Sure. Thanks, John. So referring to Slide 11, Toba Montrose's first quarter generation was 9 gigawatt hours versus our forecast of 24 gigawatt hours, which is 38 percent of plan.

Temperatures in Southern BC have been cooler than average, resulting in lower than forecast inflows for the first quarter and into April. Fortunately, we are starting to see some warmer weather here in May, and we are currently above 80 percent of the forecast and gaining.

The snowpack in the region is trending above the long-term average, so we are looking forward to good generation through the rest of the spring and into the summer.

On-site in the first quarter we completed our annual maintenance and inspection on both of the plants, and now all four of the units are operating and currently producing more than 110 megawatts. Our resource utilization remains high, and the plants are running well no significant issues.

The photo on the right of the slide shows a technician cleaning and inspecting one of the East Toba generators during our annual outage. This work is performed to ensure the turbines are operating at their maximum efficiency and reliability.

Moving on to Jimmie on Slide 12. Jimmie Creek generated 1.4 gigawatt hours, or 103 percent of plan in the first quarter of 2017, and year to date is at 85 percent of plan.

The first quarter of the year generation target for Jimmie Creek is even lower than Toba Montrose, with less than 2 percent of the annual generation forecast for this quarter.

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For the first four months of the year, we are completing warranty and maintenance inspections on the plant, and the turbine generator supplier was on site to complete their construction deficiency work. All of the work was completed in April, and both of the turbines are now in operation with no significant issues.

As always, our crews continue to operate and maintain the plant safely and within our environment commitments, and we are now over three years without a recordable incident for our employees or our contractors.

Now moving on to our wind assets starting on Slide 13. The Shannon Wind project has performed very well over the first quarter of 2017, with generation at 102 percent of plan for the first quarter and 99 percent year to date.

As of this morning, the plant is at 164 megawatts with good wind forecast into the next week. The plant continues to operate well with no safety, environmental, or equipment issues, and we continue to maintain high wind turbine availability, hitting 99 percent during the first quarter. And GE, who operate and maintain the turbines for us, are exceeding their contractual availability targets.

Q1 2017 revenue is up against Q1 2016, mainly because of the power heads that came into effect last June. The revenue in Q1 of 2016 was strictly merchant pricing. We are, however, still seeing lower than expected merchant pricing on the project.

On to Slide 14, our Dokie Wind Farm. Dokie generated 78 gigawatt hours in the first quarter of 2017, equivalent to 86 percent of plan and is currently at 76 percent of plan year to date.

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Average wind speeds have been lower than forecast for each of the first four months of the year, but we have picked up in May and we are currently over 150 percent of our pro-rated forecast for this month.

The Vestas crews on site continue to maintain the turbines well, with high turbine availability above 95 percent for the first quarter, and there are no significant operating issues.

As with all of our projects, the Alterra staff at Shannon and Dokie continue to manage the plant safely and with no environmental issues.

Next, we travel to Iceland on Slide 15. Combined generation from the Svartsengi and Reykjanes plants was 99 percent for Q1 of 2017 and is at 99 percent of plan year to date.

Resource utilization continues to be high, and both of the plants are operating well with no equipment issues.

At the Svartsengi plant, new well 26 is undergoing testing and will be hooked into the plant this fall, and is expected to add a couple of additional megawatts of production.

At Reykjanes, the field enhancement work is ongoing with generation stabilized late in 2016, and some increase in the first quarter of this year. Well 29 will be flow tested in June, and engineering work to connect it into the plant has started.

As mentioned previously, the deep well at Reykjanes was a big success, and we are planning to do some ... planning to perform some testing on the well starting this summer and into the fall.

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The photo on the right of this slide shows the new location of the HS Orka offices located at Svartsengi new plant and in amongst the lava fields.

Finally, on to our new solar project, Kokomo, on Slide 16. Kokomo came on line at the very end of 2016, and has achieved 76 percent of plan for the first quarter and 79 percent of plan year to date.

Low ambient temperature in the areas resulted in higher than forecast snow and frost on the panels, and this combined with some minor construction deficiency work in the first quarter, resulted in lower than forecast generation.

The plant output under normal conditions, however, is right in line with its design capacity, so we expect that we will meet its long-term targets going forward. The photo on the right of the slide is the official ribbon cutting ceremony for the project, which happened in April.

That's it for operations, John. With that, I'll pass it back to you.

John Carson

Thanks for that Jay. Very good work on keeping the operations going as well as they possibly could during a lower than typical resource quarter.

Paul, let's get started on our growth projects.

Paul Rapp — Vice President, Wind and Geothermal Power, Alterra Power Corp.

Sure. Thanks, John. I draw everyone's attention to Slide 17, and want to talk about our Flat Top project.

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Flat Top is in—we're completing our late-stage development activities, and everything is going very well. Project financing is expected to be completed by the end of this quarter or sooner. We're in final stage documentation and diligence with all our financial counterparties.

Alterra does plan to sell a 49 percent partnership interest in conjunction with the project financing and those discussions, negotiations, and documentation are ongoing right now.

Just as a reminder, the project is expected to qualify for the US production tax credit program. We did that through start of construction activities, both on and off site for Flat Top.

The turbine supply contract with Vestas and balance of plant contracts with Blattner construction, both those contracts have been executed and both of those are top-tier suppliers. So we're really looking forward to working with them.

John Carson

Great. And with that also, the hedge contract there is also in final stages. That will be the revenue contract.

It'll be a similar structure to what we have at the Shannon project. We expect very good production from this plant.

I've reminded folks before, this wind project has about 10 percent higher wind or electrical output per capacity than the Shannon Wind Farm does. It also resides in a very strongly robust transmission area of Texas. So we think that this is probably the premier project in Texas that we're about to shortly deliver here. We're very excited about it.

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**Paul Rapp**

Yeah. And we're looking forward to full mobilization of the construction contractor starting very early in Q3, and turbine delivery from Vestas will be starting shortly thereafter. And we expect commercial operation to be achieved in the first half of 2018.

John Carson

All right. And we have a new member of the Alterra family, the Boswell Springs project.

Paul?

Paul Rapp

Sure. So Boswell Springs is a project that we've just recently announced, but we have been working on for approximately 18 months here to acquire. So we're very excited about finally getting it across the line and now owning Boswell Springs.

It's a large project located in Southeast Wyoming in Albany County. It's a very good wind project, but what makes it an even better wind project is it comes with four 80 megawatt PPAs with Rocky Mountain Power, which is an affiliate of PacifiCorp, so very robust PPAs.

We have also PTC qualified this project through off-site construction activities which we commenced in 2016. There is a significant amount of development work remaining, permitting, transmission, and other customary project development-related work, and we're rolling up our sleeves and really digging in now getting going on that.

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We expect that financial close for this project will occur late in 2018, and we're projecting a commercial operation date of 2024.

John Carson

Thanks, Paul. We worked on this project—just a little more colour—for 18 months, as Paul mentioned, with the original developer, which is Intermountain Wind. And we in our press release we describe that they will continue to cooperate with us, Paul Martin specifically of Intermountain. So we have a two-year arrangement with him to transition over. And as Paul said, we're now in full gear on this project.

It does have the bedrock that every project needs, it's a strong revenue contract, and again the other development items are pretty typical for a wind farm of this nature. We're very happy to have it. We have a good degree of confidence this project will move ahead.

I'd also like to call your attention to the lower-right hand of the slide, reminding you that we have a 1,700—over 1,700 megawatts of wind projects that we worked to qualify in 2017. That includes Flat Top; that includes Boswell Springs. So that's 520 megawatts of qualified projects there.

Two hundred of those are about to come on ... about to go into financing. The Flat Top project, 320 as we just described, will come on in 2020. The other 1,200 megawatts we haven't named; we haven't talked about.

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We really don't intend to highlight those individual projects so much until they come closely into view; until they become more certain. There's a point of certainty at which we'd emphasize each one of those.

This is a \$20 million per year EBITDA project. It makes a significant contribution to Alterra beginning in 2020.

I just wanted to call everyone's attention to that that this is a very meaningful large project that we now have in-house. So very happy to bring it into the family here, and you'll be hearing more about this project with updates along the way over the next couple of years.

With that, I'd like to flip to Slide 19 here, really, the last slide in the presentation. There on the right-hand side you see where we're starting construction activities at the Spartan site at Michigan State University where my father is an alumni, and we had a bias toward this project for that reason.

Looking ahead, though, as we said, Flat Top is just on the verge of entering project financing with multiple parties, and we anticipate making that announcement very soon.

I want to remind people in conjunction with the Flat Top project financing and the Flat Top coming on line that we'll look at our dividend at that time. As we mentioned when we instituted our dividend plan beginning last year and the regular dividends that we've had since then, we said that every time a new project comes online we would look at our dividend and look to raise our dividend at that time, and Flat Top will be no exception.

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So we're excited about that. This is all just part of our plan of growth as a company: Growth in projects; growth in our dividends back to our shareholders. This is your future that you have as a shareholder in Alterra is increasing dividends. You grow as we grow.

Secondly, Spartan solar, a much smaller contributor, but nonetheless thematically where we love to stay in the solar space. We have looked at some larger opportunities in solar; there haven't been any that could meet our return hurdles, so we haven't done any other ones besides these smaller ones.

But we're very happy to have the relationship with Michigan State University who's the offtake for this. And we're also happy to have our co-developer and partner in that project, Inovateus Solar, who partnered with us at the Kokomo project, so thankful that we're with them in both of these projects.

I call your attention again to the large USA development pipeline, and we hope to have many more names of projects come to the fore in these next couple of years as we continue to develop and move these projects forward.

I can assure you there is a beehive of activity here in the Vancouver office as we work on these projects on a daily basis. Paul's team has really done a great job of leadership there and keeping those projects moving.

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Lastly, back over to Iceland, HS Orka—and we do have our CEO of that business on the call, Ásgeir Margeirsson—and here we have first of all our featured project, and next one is the Brúarvirkjun project.

This is one more construction project that we hope to commence on this year. This is a 10 megawatt hydro project. It's in the south of Iceland, not too far away from where most of our assets are. And we've done quite a bit of preparatory work, and we hope to have this one spinning in a couple of years.

Also citing again what Linda had mentioned, the continued improvement in the Reykjanes field, we kind of hit the bottom in the fourth quarter of last year; we hit the low point in generation. We changed a few field strategies, field management strategies. We began some well venting in some instances, and there's a balancing there of our field fluids.

But what we've seen is great, continued improvement, and we expect to get up to 75 megawatts is our target by the end of this year.

Aside from that, I'll remind our readers that we completed that IDDP 2 well, the international deep drilling program, where we drill the well to 4,650 metres. We achieved and then under very high temperatures, very high pressure which resulted in a potential for this well of 30 or even up to 50 megawatts.

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We won't know that until the end of next year. It will be some time. There are plenty of testing activities that have to occur before we'll truly know how much of a producer this well can be, if at all.

However, the indications, again, are extremely positive. If it reaches that 30 to 50 megawatt of potential, it would put it in a class of what only a few wells have reached in the world, and certainly would help out our system and our field management at the Reykjanes field.

So a lot of good things to look forward to, we're excited about the future, and we're right on target with our growth plan at Alterra. And we hope you're enjoying the excitement as we go along the way here. I will tell you, our management team, this is what we get excited about every day, our growth here.

With that, Ross, I'd like to turn it back over to you.

Ross Beaty

Great. Thank you very much, John. We had the pleasure of welcoming some shareholders and interested parties to our company yesterday when we did our annual meeting in Vancouver.

It was our seventh year as a public company. And I was really happy to go over with John the progress that we're making, and feel that after seven years and really starting the Company from scratch we've really built a great base now.

We should be ... With our Flat Top development we should be going through the 1,000 megawatt milestone that we've been working on for many years.

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With a base of eight operations, solid financial condition, increasing generation, increasing cash flow, increasing ability to pay better dividends, we really are, I think, hitting our stride and really now we'll look forward to going to the next milestone of a couple 1,000 megawatts. And we have what we think are the assets that are going to get us there.

A lot of very active development, a great team of people, and with the amount of capital in the market right now for renewable energy projects, we don't see capital as a major constraint. It's something we'll, of course, always work on, but there's a lot of relatively low cost of capital available. And this should feed well into what we're doing with our project pipeline and our mission to build a bigger and bigger company as a clean energy producer for the world.

With that, I will turn the call over to you on the phone for questions. And we'll stand by and take them as best as we can.

Operator, please open the call now.

Q&A

Operator

Thank you. Ladies and gentlemen, should you have a question, please press *, followed by 1 on your touch-tone phone. If you're using a speakerphone, please lift your handset before pressing any keys. One moment, please, for your first question.

Your first question comes from Rupert Merer from National Bank. Rupert, please go ahead.

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**Rupert Merer — National Bank**

Good morning, everyone. I'll start with a question on Flat Top. Can you talk about the equity requirements of the project, the tax equity and the equity from Alterra? How far down the road are you with your tax equity?

John Carson

Yeah. Very, very far. Thanks, Rupert. We are—basically the project's just north of US300 million; tax equity just north of about US200 million. We will have two providers of tax equity, and we will have a remnant there of equity that will be close to US100 million to be shared with us and a couple of partners.

Rupert Merer

Okay. Great. It sounds like you have no concerns about the availability of transmission in that area. We've heard that there have been ... has been some congestion in part of Texas, but it sounds like that's not an issue for you. Is that fair?

John Carson

Yeah. No, it really has one of the more pristine stories that we've seen in Texas. As you can imagine, as we've grown and developed the Shannon project and looked at many, many other projects all around the USA and in Texas, we have found what you're just citing there, Rupert, which are some congestion-constrained areas, for example, most prominently the Panhandle area. Some people who have followed the industry for years will also remember in the mid-2000s, about 10 years

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ago, there was also a high concentration of projects in West Texas that resulted actually in projects being curtailed in some instances. Obviously, a bad situation for those projects.

Those transmission difficulties were ultimately resolved. There was a new system of transmission lines put into place in Texas called the CREZ system, C-R-E-Z. And that has resulted in resolution for those West Texas projects.

We also anticipate in the future there will be resolution for the Panhandle constraints, and I won't try to speak for others there and their projects that they have. What I will say is that we are well out of those Panhandle export constraints not only at our Shannon project, but also at our Flat Top project.

Our Shannon project, as Jay has mentioned, has had some difficulties on merchant pricing that is lower than we had expected. One of the things that we'd experienced there is a downstream transmission outage, a temporary outage that has hampered us and impaired our pricing a bit at Shannon. It will be resolved. We just—it'll be a matter of weeks or months, but it will be this year that we get that transmission issue resolved, and experience better pricing at Shannon.

But now back to finally answer the main part of your question, what about Flat To, we anticipate that Flat Top will have and will continue to have an exceptionally pristine transmission story. Flat Top is on ironically a hill. It is a very flat prominence of land. There are three other projects that we're aware of on this prominence, but all around it is much lower land much lower wind. There is will very likely not going to be a strong influx of projects, like people saw in the Panhandle area.

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So we think Flat Top's transmission story is pristine. Every engineer—and they have been many—has echoed that. All of our investors have done their due diligence on that project. Our tax equity investors, our lenders, our partners, they have brought in their own engineers. And all engineers have a good consensus that Flat Top has a great transmission story; we believe one of the best in Texas. We already know it has about the best wind in Texas. It's right up there with the Panhandle projects with its wind speeds.

So with that, Rupert, I hope that was a long way to get around, and I hope it was a helpful answer.

Rupert Merer

Yes. Yeah. Very helpful. Thank you. I'll get back into queue.

Operator

Thank you. Your next question comes from now from Nelson Ng from RBC Capital Markets.

Nelson, please go ahead.

Nelson Ng — RBC Capital Markets

Great. Thanks. Just in terms of the Boswell Springs project, you mentioned that there's four 80 megawatt PPAs. Like are you going to build them in phases? Because I noticed that like they're all expected to be completed in 2020, so could you just talk about the timing? And why 2020 could one or two of them be completed earlier?

Paul Rapp

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Hi, Nelson. It's Paul here. Yeah. The PPA size is limited to 80 megawatts. The project is intended to be developed as one 320 megawatt project. But the PPAs are split into a maximum of 80 megawatts.

The 2020 time line is largely driven by, as I mentioned, the development work that's required to be done to get to the point where we can close financing and start construction. And also the project does require a transmission upgrade, regional transmission upgrade through PacifiCorp, which is they recently announced is on track for a completion prior to 2020.

So all of that is pointing to construction of the project as one project all four of the 80 megawatt segments simultaneously

John Carson

Yeah. Let me just the supplement that just a bit. You may be familiar with under PURPA regulations a qualified facility concept. That's what this project is. It consists of four separate qualified facilities.

They are distinct projects. They're over one mile apart each all carefully constructed to qualify under the QF provisions. And so—but in the end, as Paul said, we will build it basically as one. There will be one mobilization, et cetera, for the four separate projects adding up to the portfolio or the complex of 320 megawatts, which we expect, as Paul's already described, to come online in 2020.

Nelson Ng

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I see. And then could you talk a little bit about the PPA? Is it fully indexed inflation or like around 2 percent? Or is it something a bit lower than that?

John Carson

Yeah. No, it has its own escalation concept, but for that I'd lead you to the PPA is actually published and available, so I'll leave you to see the parts there. Bits of it have been edited out like the proper prices, et cetera, but you can find the PPAs on the Wyoming Public Utility Commission website.

Nelson Ng

Okay. Thanks. I'll check it out. And then just moving on to Iceland, the—like I don't know how to pronounce it—the 10-megawatt hydro facility, so it sounds like construction could start at the end of this year. From your perspective what needs to happen? Like do you need a PPA? Or do you feel that you could develop it on merchant and sell some to the merchant market?

John Carson

Yeah. Well, don't forget we serve a number of offtakes from HS Orka, and it's a different situation there in Iceland. Here in the US and Canada we have one project with one contract. There, all of our producing projects feed into the company and from there the company feeds many, many power purchase agreements. So it's a different arrangement with that respect.

So it's not as if there's a single 10-megawatt offtake contract for this project. No, it doesn't need an incremental contract. Really, we're not waiting on much anything. We're about to complete a financing in Iceland related to this project. And that will basically constitute a project financing,

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although it doesn't exist at the project level; it exists at the Company level. So we expect that to happen really within the next several weeks.

So there's really not a lot that we're waiting on. The construction activities that we will have at Brúarvirkjun are very light for this year, but again, it's about a two-year cycle, and we'd expect this project to achieve commercial operations in 2019.

Nelson Ng

And could—

Ross Beaty

Maybe, John, you might refer to Ásgeir. He's standing by. Anything to add on that, Ásgeir?

Ásgeir Margeirsson — Chief Executive Officer, HS Orka, Alterra Power Corp.

Ross, really no; John covered it all. And while balancing our power portfolio, so to speak, we can adjust how much we buy from other producers to feed into the market to our contracts and retail customers. And our portfolio is over 200 megawatts. So a difference of 10 megawatts could easily be stalled by reducing power purchases who are sold to new customers.

Ross Beaty

Great. Thank you.

Nelson Ng

And do you have a rough estimate of the CapEx required? And also roughly where our merchant power price is in Iceland today?

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John Carson

Ásgeir?

Ásgeir Margeirsson

Yes. The industrial power prices in new contracts in Iceland are around \$40 a megawatt hour.

Nelson Ng

Mm-hmm.

Ásgeir Margeirsson

And there is increased interest in the market now from data centres or server farms for computing and data storage. So we are short of power to deliver to those who want to buy it actually. And it's pushing us for the development of this project and others. So we feel the need for it.

The CapEx of Brúarvirkjun is just over \$3 million a megawatt, 3.4 or 3.5, if I remember correctly. The ISK has been strengthening a bit recently, so it's like 3 million or \$4.5 million per megawatt.

Nelson Ng

Okay. Got it. And in Iceland the hydro facilities generally have a pretty high utilization. Is that right in terms of the capacity factor?

Ásgeir Margeirsson

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Yeah. This is from project to project. This one has an extremely high one. It's kind of a pure spring water river, to speak, with extremely even flow, and capacity factor is around 95 percent.

Nelson Ng

Wow. Okay. All right.

Ásgeir Margeirsson

It's unusually stable.

John Carson

Our projects in British Columbia are all around 35 percent or so. So yeah, this is a quite different setup here at 95 percent.

Nelson Ng

Okay. Thanks. I'll get back in the queue.

Operator

Thank you. Your next question comes from David Quezada from Raymond James.

David, please go ahead.

David Quezada — Raymond James

Yeah. Thanks. Morning, guys. My first question here just on the Reykjanes field enhancement activities. Is that still trending up into 2Q on, I guess, as a corollary I think we said on the last call 65 megawatts in the first half of the year, then 75 in the second half for a full year average of 70. Is that still the right way to think about this?

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**John Carson**

Yeah. I'll start off. Ásgeir, if you'd like to finish up you can, but just to keep it very simple, we were down in the 60s. We're back up above 70. We've been up to 72 very recently. And right now, we're just slightly north of 70. I'd say we're at a momentary plateau.

There's a bunch of things there to think about, but our expectation is that we're at 75 by year-end just from our field mitigation and enhancement measures. So we're on the uptick. I'd say right now, yeah, we're just north of 70.

David Quezada

Okay. Great. Thank you.

Ásgeir Margeirsson

Actually, nothing to add here.

David Quezada

Okay. Perfect. Thanks. I guess my only other question just on the deep drilling at Reykjanes with the—it looks like pretty exciting potential for that well. Does that change your strategy in terms of drilling other production wells at Reykjanes? Are they kind of interrelated at all?

Ross Beaty

Ásgeir?

John Carson

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Yeah. I'll start off again, Ásgeir. No, it doesn't. We do plan on deep drilling a next production well at the Reykjanes field. Our well plan and our field enhancement and our mitigation measures are all geared as if we would get nothing from the deep drilling program.

So we're going ahead with everything that we would as if it weren't there. We won't have it for a full year and a half, so we're not going to wait around for it and cross our fingers. We do think and expect it will be a good one. That's my initial colour.

Ásgeir, why don't you finish up?

Ásgeir Margeirsson

Well, it's actually this way. The deep drilling is a little bit different than the conventional exploitation. So we have to study—first of all, we have to kind of redesign the well totally from scratch compared to conventional wells and drill it a little bit differently because it's deeper, it's more difficult, and actually riskier to drill it. And we succeeded greatly. And now we are in the phase of designing how are we going to use what we get out of it. And we won't know exactly until we know what the well will yield and not only in terms of quantity or temperature, but also in terms of chemistry.

So we're basically designing the testing equipment for the well. So it's a different story. It will show later, as John is saying.

John Carson

And let me bring up one more point, Ásgeir. Lynda just reminded me that we've been talking about all of the data that we've elicited or received from the deep drilling program. It has now made

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us rethink some of the older old wells that are on the property may suddenly become viable again because now we have realized that there are good, strong NFLP (phon) laden pockets lower than we had thought. So we may—our drilling strategy may be altered on the basis of what we learn through the program.

Ásgeir Margeirsson

Exactly. This is the first well that shows good potential below 3,000 metres, so maybe more wells should be deeper than 3,000 metres.

David Quezada

That's very interesting. Thank you. That's all I had.

Operator

Thank you. Your next question comes from David Galison from Canaccord Genuity.

David, please go ahead.

David Galison — Canaccord Genuity

Hi. Good morning, everyone. My first question I just wanted to follow up on the Reykjanes facility. So you're looking at getting to 75 megawatts by the year-end. How should we think about continued improvement in the facility going into 2018? And ultimately up to—back up to closer to the full potential?

John Carson

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I'd say our first response there, David, is just keep that extrapolation going, keep that—if we're at 70 now, 75 at the end, I think the simplest answer is look at a ramp-up that way. We feel confident. We also have—since the folks are very interested in the Reykjanes field I'll go ahead and give just a little more colour—there was an old well we drilled, well 29 in the Stampar region which is close by our field, which appears to be partitioned away from the main field. And that would be a good thing. We feel that we have production capacity from that well that was drilled several years ago, and this may be a new region of growth generation-wise that would not affect and would be disassociated from our current field, which is a good thing.

So that's a growth area for us. We also have a nearby place which we cited in our materials called Stora-Sandvik, which also we believe would be a partitioned-away region which could be harnessable also for the Reykjanes field. So there are upsides and potential other future growth areas.

All of these things combined, along with the deep drilling program, we hope that in the future here we may have and get back to our full capacity, which we think we could get well over 100 megawatts from the plant area.

But for now, I think it's the steady ramp up to 75 megawatts at the end of the year and beyond is a pretty fair assumption and a safe assumption.

Ásgeir, what do you think?

Ásgeir Margeirsson

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Exactly correct John. We won't rest at 75 or 80. We will continue to step up until we get to the full potential, that's for sure. And we believe we will be able to do so very strongly.

David Galison

Okay. Then I guess my second question would—just related to the bond refinancing. So the first thing is is there options? When you're evaluating the options here is an extension part of that? Or is it really just a refinance? Or no refinance right now?

John Carson

Yeah. Just to start that off, David—thanks for that—it is an option. It has been one that's been a little tough to get we've explained earlier. So yeah, that is an option that we have.

I don't know that it's an easy to get one at this moment, but we're working through all of these with our advisor for different things to do with it. And one of the options, as Lynda said, is well to turn the shares back in, removing our ownership down to 53.8 percent—still giving us a controlling stake; our governance would not change a bit—and taking \$70 million of debt off of our books.

David Galison

And if it were to go to that a—go that route, having another partner in the mix, will that have any type of an impact on further investments for the growth opportunities that you're looking at right now for HS Orka?

John Carson

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Yeah. If you're suggesting that the 12.7 percent stake would have a governance rights or ability to hinder our progress there, it wouldn't. Under the shareholders' agreement that we have it'd be somewhat of an orphan stake. We don't anticipate, though, that that's going to happen.

I just anticipate that we'll kind of—we'll keep that share in the family somehow. We'll see how that pans out, but if it were delivered to a third party, no, that party would not have governance rights or be able to hurdle our progress at Iceland.

David Galison

Okay. And then just a maintenance question at HS Orka, G&A costs were up a bit. I was wondering if there's anything behind that or if that's kind of a level that we should think about going forward?

Lynda Freeman

Hi, David. It's Lynda here. No, there were some onetime costs that went through, and also it's an impact of FX. So I think the year-end numbers is still—our run rate there I wouldn't expect it to go up significantly. This quarter is just a bit higher than normal.

David Galison

Thank you very much.

Operator

Thank you. We have a follow-up question from Rupert. Rupert, please go ahead.

Rupert Merer

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Thank you. When you're looking at your investments in growth in North America versus Iceland, how do the returns compare?

John Carson

Really pretty closely, actually. With the uptick in Iceland pricing that Ásgeir mentioned where we can see that new contracts are getting signed at around the \$40 a megawatt level, that takes us up to in most cases and the cost that you've realized there you could run a pretty simple model yourself at a 95 percent capacity factor, and you can see that returns on a Brúarvirkjun are well into double digits. That's just math that you could figure out from everything that we've already told you.

When we look at the projects like Flat Top in the world, likewise there we see healthy double-digit returns on that project. And just pointing at North America, Rupert, typically when you're doing a merchant-tranched project like a Flat Top, like a Shannon, you want to make sure you're getting into those double-digit returns in order—because the cash flow quality is not the same as a solid PPA as the types of PPA we'd have at the Boswell project.

Looking at where we see competition happening, we think other competitors are probably around the same ballpark as us. I think we have been able to find very good projects to achieve strong returns in North America, but definitely when you have a true PPA folks are betting those well into the single digits these days. But the contrary fact there is that it's very reliable cash flow.

But yeah, Iceland, North America, surprisingly similar returns these days.

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**Rupert Merer**

And maybe a question for Ásgeir; looking at the market for Iceland you talked about new data centres, and of course we've had potential for new silicon metal plants. How much visibility do we have on demand growth in Iceland?

Ásgeir Margeirsson

Well, it's difficult to say exactly. The general retail market is growing in Iceland about 25 megawatts or so per year, and that's executing things customers like silicon or data centres. That's the general market that's growing that way. This is, though, only about 1 percent of capacity, but remember the bulk of the capacity goes to heavy industries, aluminum smelters and the like; like 75 percent of the capacity of the whole country.

So it's a serious growth for the retail market, the general market, and then there are certain customers like these data centres or silicon projects. And some of these projects that are being worked on have not yet been able to source the power that they need and they want. And so we are constantly being asked for power that we don't have available.

We believe that this trend will continue.

Rupert Merer

Okay—

Ásgeir Margeirsson

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I can't give you a more precise answer until more deals are being made, but this is what it is now.

Rupert Merer

Okay. Great. Thank you. And just one final question; on Boswell what will be the cost for development to get that project to the point of construction?

John Carson

Yeah. Really we've incurred a bit of it already just with respect to we're building a couple of the transformers off site for that project. We stepped into some old development expenses that we paid to the original developer, et cetera, so a little bit; nothing a very material there.

And over the course here, the next several years, really the largest expense you'll see down the road here will be the interconnection deposit for the substation. And that will be I think it's US9 million we calculated. Was it 9 or 10, Paul?

Yeah. I think it was 9.1 or 10.1, right around that neighbourhood. And you've seen us do that before. You saw us do that at Shannon, you saw us do that at Flat Top, so it's a very typical project expense. That'll be the biggest one. Before then it's just a few million.

Rupert Merer

Okay. Great. I'll leave it there. Thank you.

Operator

Thank you. We have a follow-up question from Nelson. Nelson please go ahead.

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**Nelson Ng**

Great. Thanks. Just a few questions on Shannon. So I was just checking to see if my math is right. Was the realized price about \$19 per megawatt hour? And—

John Carson

Does that sound right? Yeah. I don't know if that's exactly right. Of course, our hedge price is well above that number. We have had some merchant pricing shortfalls this year. So I know what you're doing there, or I believe I know what you're doing. You're taking our power and you're dividing the revenue into that.

It is a very ... It's somewhat of a complex thing to do, and it would be difficult to provide enough colour and let you thoroughly understand exactly how the power pricing works there. But the biggest thing was that I mentioned the power prices away from the contract have been lower. It's great, though, that we finally had the hedge in place, which is well above the number you just implied.

And looking to the future, we expect to see some better merchant pricing for several reasons. But prominently for our project, again this downstream transmission outage that has now been with us for several months and will be with us for a few more months we're afraid, but that has hampered our merchant stream at the Shannon project.

Nelson Ng

I see. Because I was thinking like the majority or roughly 75 percent of the power was hedged at somewhere in the mid-20s, so I was just kind of doing the math to see how ... to see what

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the implied merchant was. But I think you mentioned that the math is complicated, or just to kind of explain the whole process—

John Carson

It is complicated, but maybe in the future, Nelson, one thing that we could do is maybe be a little more lucid on breaking down our revenues or something to make it more helpful for you. So let us let us think about that in a way to do that maybe in the future.

Nelson Ng

Sure. And then just one other question on Shannon, so the project ... I think I read that the project made distributions of 0.7 million during the quarter and another 0.7 million after the quarter, but Alterra's stake was like 100,000 and 200,000. So were the majority of the project distributions going to tax equity? And is that just more of a timing thing? Or do they have priority over the distributions first?

Lynda Freeman

Hi. It's Lynda here. No, they don't have priority first, but what happens is there's specific allocations of the cash, and as we documented in the MD&A, it's based on a cumulative test on generation since tax equity funded. So in the first quarter they got a proportionately higher amount of those distributions.

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But as we continue to draw to generate above sort of the average level which we're currently doing, we'll start to get a higher number of that, so higher percentage of those distributions going forward. And that's our expectation.

John Carson

Right. Yeah. And to just put a simple cap statement on that, yes, during that period they got ... the tax equity investors got the majority. Once the wind gets back to recovering, and we're already passing hurdles to get back to where it's supposed to be—we just had that terrible first year of wind—then we will be back to getting a healthy majority of the cash allocations.

Nelson Ng

Okay. Thanks, everyone. Those are all my questions.

Operator

Thank you. There are no further questions at this time. Please proceed.

Ross Beaty

Great. Well, thank you very much, everybody. I think we've had a good review today of our results. And so I think with that, we'll call the meeting or call the phone conference at an end.

And thank you all for your time, and wish you a good day.

John Carson

Thanks, everyone.

Operator

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Ladies and gentlemen, this concludes your conference call today. We thank you for participating, and ask that you please disconnect your lines.

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