Alterra
POWER CORP

Consolidated Financial Statements
December 31, 2015 and 2014

(expressed in United States dollars)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Alterra Power Corp. ("Alterra") are the responsibility of management. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and where appropriate, include management's best estimates and judgments.

Management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and that financial information is accurate 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 consolidated financial statements and reports prepared by management, internal controls, audit results, accounting principles and related matters. The consolidated financial statements, upon recommendation from the Audit Committee, are then sent to the Board of Directors for final approval.

PricewaterhouseCoopers 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 B. Carson"

John B. Carson
Chief Executive Officer

"Lynda D. Freeman"

Lynda D. Freeman
Chief Financial Officer

Vancouver, Canada
March 15, 2016

March 15, 2016

Independent Auditor's Report

To the Shareholders of Alterra Power Corp.

We have audited the accompanying consolidated financial statements of Alterra Power Corp., which comprise the consolidated balance sheets as at December 31, 2015 and December 31, 2014 and the consolidated statements of operations, comprehensive loss, cash flows and changes in equity for the years then ended, and the related notes, which comprise 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 International Financial Reporting Standards as issued by the International Accounting Standards Board 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 the auditor's 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, the auditor considers 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 audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP
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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Alterra Power Corp. as at December 31, 2015 and December 31, 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

signed "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Alterra Power Corp.

Consolidated Balance Sheets

(expressed in thousands of United States dollars)

	Note	December 31, 2015	December 31, 2014
Assets			
Current assets			
Cash and cash equivalents	39	**$ 10,345**	$ 63,216
Restricted cash	6	**10,766**	9,672
Short-term investments		**7,670**	4,321
Trade and other receivables		**12,354**	11,414
Inventories		**3,716**	3,381
Current portion of bonds receivable	14	**596**	621
Prepaid expenses		**229**	483
		45,676	93,108
Investment in associates	7	**174,457**	125,391
Bonds receivable	14	**1,491**	1,988
Long-term receivable and other assets	15	**5,518**	14,540
Prepaid lease and royalty fee	16	**3,900**	3,901
Plant and equipment	17	**288,817**	286,513
Development costs	18	**58,229**	73,298
Deferred income tax	35	**2,898**	—
Other intangible assets		**1,330**	1,995
Goodwill	22	**10,698**	10,912
		547,338	518,538
Assets held for sale	28	**—**	11,566
Total assets		**$ 593,014**	$ 623,212
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**$ 13,660**	$ 17,890
Current portion of long-term debt	24	**135,386**	17,752
Current portion of embedded derivatives	32	**8,362**	4,898
Current portion of interest rate swaps	26	**847**	577
Other liabilities	23	**10,689**	5,778
		168,944	46,895
Long-term debt	24	**120,153**	272,378
Pension fund obligations	25	**15,779**	14,856
Embedded derivatives	32	**57,348**	39,166
Interest rate swaps	26	**2,292**	372
Below market contracts	27	**15,908**	17,923
Deferred income tax	35	**13,340**	15,680
		224,820	360,375
Liabilities held for sale	28	**—**	1,928
Total liabilities		**$ 393,764**	$ 409,198

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

(expressed in thousands of United States dollars)

	Note	December 31, 2015	December 31, 2014
Equity			
Share capital	29	**$ 362,905**	$ 362,570
Contributed surplus		**6,387**	5,733
Accumulated other comprehensive loss		**(20,628)**	(24,192)
Deficit		**(222,740)**	(205,723)
Total equity attributable to owners of the Company		**125,924**	138,388
Non-controlling interest	30	**73,326**	75,626
Total equity		**199,250**	214,014
Total liabilities and equity		**$ 593,014**	$ 623,212

Commitments (note 34)

Financial instruments - liquidity risk (note 32)

Subsequent events (notes 8, 9, 17, and 31)

Approved by the Board of Directors and authorized for issue on March 15, 2016

"Ross Beaty"
Ross Beaty
(Director)

"James Bruce"
James Bruce
(Director)

Alterra Power Corp.

Consolidated Statements of Operations

For the years ended December 31, 2015 and 2014

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

	Note	Year ended December 31, 2015	2014
Revenues			
Energy sales		$ **57,835**	$ 70,353
Portfolio energy credit sales		**—**	599
		57,835	70,952
Cost of sales	37	**(41,704)**	(53,860)
Gross profit		**16,131**	17,092
Other income (expenses)			
General and administrative	38	**(9,895)**	(10,365)
General development expenses		**(1,417)**	(315)
Share of results of equity investments	8-13	**22,125**	12,200
Finance income		**1,808**	2,738
Finance costs		**(12,643)**	(8,602)
Change in the fair value of bonds payable		**1,655**	(2,601)
Change in the fair value of derivatives		**(22,285)**	(11,846)
Foreign exchange loss		**(18,459)**	(4,566)
Write-down of development costs and plant and equipment	19,21,28	**—**	(22,439)
Write-off of goodwill	22	**—**	(2,018)
Other income		**1,927**	511
		(37,184)	(47,303)
Loss before income tax		**(21,053)**	(30,211)
Income tax recovery (expense)	35	**3,747**	(4,563)
Loss for the year		$ **(17,306)**	$ (34,774)
Attributable to:			
Owners of the Company		$ **(16,717)**	$ (36,340)
Non-controlling interest		**(589)**	1,566
		$ **(17,306)**	$ (34,774)
Weighted average shares outstanding (thousands)			
Basic and diluted		**468,622**	467,047
Loss per share attributable to owners of the Company			
Basic and diluted		$ **(0.04)**	$ (0.08)

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

Alterra Power Corp.

Consolidated Statements of Comprehensive Loss

For the years ended December 31, 2015 and 2014

(expressed in thousands of United States dollars)

	Note	Year ended December 31, 2015		2014
Loss for the year		$	(17,306)	$ (34,774)
Other comprehensive income (loss)				
Items that may be reclassified to profit and loss:				
Effective portion of change in fair value of cash flow hedges, net of tax			(10,321)	(7,241)
Net change in fair value of cash flow hedges transferred to statement of operations, net of tax			2,048	1,485
Foreign currency translation adjustment			10,247	(24,816)
Change in fair value of available-for-sale investments			(4)	(238)
Items that will never be reclassified to profit and loss:				
Defined benefit plan actuarial losses	25		(567)	(454)
Tax on items that will never be reclassified to profit and loss			114	91
Comprehensive loss for the year		$	(15,789)	$ (65,947)
Attributable to:				
Owners of the Company		$	(13,453)	$ (60,491)
Non-controlling interest			(2,336)	(5,456)
Comprehensive loss for the year		$	(15,789)	$ (65,947)

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

Alterra Power Corp.

Consolidated Statements of Cash Flows
For the years ended December 31, 2015 and 2014
(expressed in thousands of United States dollars)

	Note	Year ended December 31, 2015	2014
Operating activities			
Loss for the year		$ **(17,306)**	$ (34,774)
Items not affecting cash			
Amortization, depreciation, depletion and accretion		**11,179**	13,245
Amortization of below market contracts	27	**(1,657)**	(2,038)
Share of results of equity-accounted investees		**(22,125)**	(12,200)
Change in fair value of bonds payable		**(1,655)**	2,601
Change in fair value of derivatives		**22,285**	11,846
Finance income and costs, net		**10,835**	5,864
Unrealized foreign exchange loss		**18,459**	4,566
Deferred income tax expense (recovery)	35	**(3,747)**	4,563
Stock-based compensation	29	**662**	574
Development costs and plant and equipment write-down		**—**	22,439
Goodwill written off		**—**	2,018
Other		**(1,325)**	96
Distribution received from Toba Montrose GP	8	**5,463**	12,117
Distribution received from Dokie GP	9	**1,182**	1,325
Distribution received from Blue Lagoon	12	**2,679**	2,812
Interest received		**991**	1,859
Interest paid		**(9,439)**	(7,600)
Taxes paid	35	**—**	(340)
Change in non-cash working capital items	39	**(5,425)**	(2,132)
Cash generated by operating activities		**11,056**	26,841
Financing activities			
New borrowings	31	**2,112**	126,942
Financing fees on holding company loan facility	24	**—**	(3,472)
Repayment of loans	24	**(19,713)**	(66,272)
Other		**(857)**	(642)
Cash generated by (used in) financing activities		**(18,458)**	56,556
Investing activities			
Purchase of plant and equipment	17	**(18,224)**	(9,087)
Hydro development costs	20	**(740)**	(47,695)
Wind development costs	21	**(37,581)**	(5,698)
Proceeds from deep drilling program grants	23	**4,978**	—
Return of Jimmie Creek capital	10	**—**	20,336
Return of Shannon capital	11	**3,500**	—
Proceeds from sale of Soda Lake	28	**8,326**	—
Equity contribution in Shannon	11	**(6,927)**	—
Developer and construction management fees (Shannon)	11	**2,250**	—
Net proceeds from sale (acquisition) of short-term investments		**(3,987)**	3,102
Restricted cash		**4,229**	(5,172)
Security deposits		**(29)**	(10,330)
Investment in associates		**(78)**	(1,782)
Other		**145**	(2,703)
Cash used in investing activities		**(44,138)**	(59,029)
Effect of foreign exchange on cash		**(1,331)**	(2,827)
Decrease in cash and cash equivalents		**(52,871)**	21,541
Cash and cash equivalents - beginning of year		**63,216**	41,743
Cash classified as held for sale	28	**—**	(68)
Cash and cash equivalents - end of year		$ **10,345**	$ 63,216

Supplementary cash information (note 39)

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

Alterra Power Corp.

Consolidated Statements of Changes in Equity

For the years ended December 31, 2015 and 2014

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

	Note	Common shares Number of shares	Common shares Amount	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Non - controlling interest	Total equity
Balance, January 1, 2014		466,699,444	$ 362,420	$ 5,136	$ (282)	$ (169,142)	$ 81,725	$ 279,857
Shares issued to employees	29	563,917	150	—	—	—	—	150
Value assigned to options granted	29	—	—	597	—	—	—	597
Foreign currency translation adjustment		—	—	—	(17,916)	—	(6,900)	(24,816)
Dividend from HS Orka hf		—	—	—	—	—	(643)	(643)
Effective portion of change in fair value of cash flow hedge, net of tax		—	—	—	(7,241)	—	—	(7,241)
Net change in fair value of cash flow hedge transferred to statement of operations, net of tax		—	—	—	1,485	—	—	1,485
Change in fair value of available-for-sale investments		—	—	—	(238)	—	—	(238)
Defined benefit plan actuarial losses, net of taxes		—	—	—	—	(241)	(122)	(363)
Income (loss) for the year		—	—	—	—	(36,340)	1,566	(34,774)
Balance, December 31, 2014		467,263,361	$ 362,570	$ 5,733	$ (24,192)	$ (205,723)	$ 75,626	$ 214,014
Balance, January 1, 2015		467,263,361	$ 362,570	$ 5,733	$ (24,192)	$ (205,723)	$ 75,626	$ 214,014
Shares issued to employees	29	1,323,620	312	—	—	—	—	312
Options exercised	29	65,428	23	(8)	—	—	—	15
Value assigned to options granted	29	—	—	662	—	—	—	662
Foreign currency translation adjustment		—	—	—	11,841	—	(1,594)	10,247
Dividend from HS Orka hf		—	—	—	—	—	(800)	(800)
Effective portion of change in fair value of cash flow hedges, net of tax		—	—	—	(10,321)	—	—	(10,321)
Net change in fair value of cash flow hedges transferred to statement of operations, net of tax		—	—	—	2,048	—	—	2,048
Change in fair value of available-for-sale investments		—	—	—	(4)	—	—	(4)
Acquisition of subsidiary at HS Orka hf with non-controlling interest		—	—	—	—	—	836	836
Defined benefit plan actuarial losses, net of taxes		—	—	—	—	(300)	(153)	(453)
Loss for the year		—	—	—	—	(16,717)	(589)	(17,306)
Balance, December 31, 2015		**468,652,409**	**$ 362,905**	**$ 6,387**	**$ (20,628)**	**$ (222,740)**	**$ 73,326**	**$ 199,250**

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

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

1) DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

Alterra Power 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 development, construction and operation of renewable power projects. The Company's operating facilities consist of a 66.6% net interest in two geothermal power plants in Iceland ("Svartsengi" and "Reykjanes"), a 40% net interest in two run of river hydro power plants ("Toba Montrose"), a 25.5% net interest in a wind farm ("Dokie 1") in British Columbia and a 50% net interest in the sponsor equity in Shannon wind farm ("Shannon") located in Texas.

The Company has a 51% net interest in the Jimmie Creek hydro project ("Jimmie Creek") located in British Columbia which is currently under construction and is expected to achieve commercial operation in the summer of 2016.

In addition to the operating facilities and construction asset Jimmie Creek, the Company also has the following development assets:

Location	Project	Net ownership	Technology
Canada	Bute Inlet	100%	Hydro
	Dokie 2	51%	Wind
	Tahumming	100%	Hydro
	South Toba projects	100%	Hydro
	Coastal wind projects	100%	Wind
	Multiple early stage projects	100%	Hydro
Iceland	Reykjanes 3-4 (potential expansion)	67%	Geothermal
	Eldvörp / Krýsuvík / Trölladyngja	67%	Geothermal
	Búlandsvirkjun	33%	Hydro
	Hvalá	35%	Hydro
	Brúarvirkjun	67%	Hydro
	Skúfnavatnavirkjun	35%	Hydro
	Multiple early stage projects	67%	Geothermal/Hydro
USA	Soda Lake Solar	100%	Solar
	Multiple wind projects	100%	Wind
Chile	Mariposa	30%	Geothermal
Peru	Multiple early stage projects	30%	Geothermal
Italy	Mensano / Roccastrada	45%	Geothermal

The recovery of the carrying values of the Company's projects and properties is typically dependent upon the successful completion or sale of the projects. The successful completion of a project is typically dependent upon receiving environmental and operating permits, completing contractual arrangements for the development and construction of the project, entering into a power purchase agreement or financial hedge for power sales, obtaining any necessary project financing, and the long-term generation and sale of electricity on a profitable basis. The carrying value of the Company's projects and properties represents net costs to date less amounts amortized and/or written off or fair value allocated to assets on acquisition, and does not necessarily represent current or future values.

1) DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS (Continued)

At December 31, 2015 the Company has a working capital deficit due to its holding company bonds (Sweden) of $118.0 million being classified as a current liability. These bonds were issued in conjunction with the acquisition of HS Orka hf ("HS Orka") and mature in July and December 2016. The Company has plans to retire the bonds through refinancings in 2016, for which the Company is currently in negotiations (note 24).

2) BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Company's significant accounting policies are described in note 3.

These consolidated financial statements were authorized for issue by the Board of Directors on March 15, 2016.

3) SIGNIFICANT ACCOUNTING POLICIES

a) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for the following material items in the consolidated balance sheets:

- derivative financial instruments (interest rate swaps), which are measured at fair value;
- embedded derivatives in electricity power sales contracts, which are measured at fair value;
- financial liabilities designated as fair value through profit or loss (bonds payable), which are measured at fair value;
- available-for-sale financial instruments (short-term investments), which are measured at fair value;
- defined benefit pension obligation, which is measured at the present value of the pension obligation; and
- assets and liabilities classified as held for sale, which are measured at fair value less costs to sell.

b) Functional and presentation currency

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

The Company has determined that the functional currency of the Company and each of its subsidiaries, except Magma Energy (U.S.) Corp., Soda Lake Solar, LLC, Alterra Shannon Investments, LLC, Alterra Shannon Holdings, LLC, Shannon Group Holdings, LLC, Shannon Partnership Holdings, LLC, Shannon Wind Holdings, LLC, Shannon Wind, LLC, Alterra Management Services, LLC, and Alterra Texas Holdings, LLC, (the "US Subsidiaries"), and HS Orka, is the Canadian dollar ("C$"). The functional currency of the U.S. Subsidiaries is the U.S. dollar and the functional currency of HS Orka is the Icelandic Krona ("ISK"). Monetary assets and liabilities and other financial instruments carried at fair value denominated in a currency other than the functional currency of the Company and its subsidiaries are translated into the functional currency at the exchange rate in effect on the balance sheet date while non-monetary assets and liabilities, and 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.

3) SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Basis of consolidation

These consolidated financial statements 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., Soda Lake Solar, LLC, Plutonic Power Corporation (“Plutonic”), Plutonic Hydro Inc., Plutonic TMP Holdings Inc., Bute Hydro Inc., Plutonic Dokie Holdings Inc., Plutonic Dokie Expansion Holdings Inc., Stave Point Holdings Inc., Dalgleish Hydro Inc., Plutonic Solar Inc., Plutonic ABW Holdings Inc., Plutonic Upper Toba Holdings Inc., Salal Geothermal Inc., Alterra Quaye Holdings Inc., 0953940 B.C. Ltd., South Banks Island Wind Holdings Inc., Porcher Island Wind Holdings Inc., Soren Hill Wind Holdings Inc., McCauley Island Wind Holdings Inc., 0950568 B.C. Ltd., 0950569 B.C. Ltd., Knight Hydro Inc, Zoltan Hydro Inc, Powell Hydro Inc., Plutonic Development Corp., Alterra Renewable Holdings Corp., Alterra Renewable Holdings I Corp., Alterra Renewable Holdings II Corp., Alterra Renewable Holdings III Corp., Alterra Jimmie GP Corp., Jimmie Creek GP Inc., Alterra Texas Holdings, LLC, Alterra Shannon Investments, LLC, Alterra Shannon Holdings, LLC, and Alterra Management Services, LLC.

At December 31, 2015, the Company held a 66.6% 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 at December 31, 2015 the remaining 33.4% non-controlling interest in equity.

In October 2015, HS Orka further increased their ownership of Vesturverk ehf. ("Vesturverk") to 52.5% and consequently the Company now consolidates their results. Vesturverk owns the 55 MW Hvalá and 10 MW Skúfnavatnavirkjun early-stage hydroelectric development properties in Iceland.

i) Business combinations

Acquisitions of subsidiaries and businesses (other than entities which were already under the control of the parent) are accounted for using the acquisition method. The consideration transferred is measured as the aggregate of the fair value (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. The acquiree’s identifiable assets and liabilities that meet the conditions for recognition are recognized at their fair value at the acquisition date except for certain assets and liabilities which are recognized and measured in accordance with the applicable IFRS guidance.

Goodwill arising on acquisition is recognized as an asset and is measured as the fair value of consideration paid including the recognized amount of any non-controlling interest in the acquiree and fair value of previously held investments in the acquiree less the fair value of the net identifiable assets and liabilities recognized. If the Company's interest in the fair value of the acquiree's net identifiable assets and liabilities exceeds the fair value of consideration paid, the excess is recognized immediately in the statement of operations as a bargain purchase.
Transaction costs, other than those associated with the issuance of debt or equity securities that the Company incurs in connection with a business combination, are expensed as incurred.

ii) Acquisitions and disposals of non-controlling interests

Transactions that result in changes in ownership interests while retaining control are accounted for as transactions with equity holders in their capacity as equity holders. As a result no gain or loss on such

3) SIGNIFICANT ACCOUNTING POLICIES (Continued)

changes is recognized in the statement of operations and no change in the carrying amounts of assets (including goodwill) or liabilities is recognized. All changes as a result of acquisitions and disposals of non-controlling interests are recognized directly in the statement of equity.

iii) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from the entity's activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

iv) Investments in associates and jointly controlled entities

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

Jointly controlled entities are those entities over whose activities the Company has joint control, established by contractual agreement.

Investments in associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are recognized initially at cost. The Company's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Company's share of the net income and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Company has an obligation to make, or has made, payments on behalf of the investee. The Company has a 40% interest in Toba Montrose General Partnership ("Toba Montose GP,") a joint venture, which owns and operates Toba Montrose, a 25.5% interest in Dokie General Partnership ("Dokie GP"), a joint venture, which owns and operates Dokie 1, and a 50% interest in Shannon Group Holdings, LLC ("Shannon Group LLC"), a joint venture, which owns and operates Shannon.

The Company also equity accounts for the following investments in construction and development properties; a 51% investment in Jimmie Creek Limited Partnership ("Jimmie Creek LP"), a joint venture that owns Jimmie Creek, a 45% interest in Magma Energy Italia, a joint venture that owns the Mensano and Roccastrada geothermal projects, a 30% interest in Compania de Energia Limitada, a joint venture that owns the Mariposa project in Chile (comprised of the Maule and Pellado concessions), and a 30% interest in a joint venture that owns concessions in Peru.
The Company, through HS Orka, also owns a 30% interest in Bláa Lőnið ehf (the "Blue Lagoon"). The Company equity accounts for its investment in Blue Lagoon.

d) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits that are readily convertible to cash or that have original maturities at acquisition of three months or less.

3) SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Restricted cash

Restricted cash is comprised of cash that is not available for immediate use.

f) Short-term investments

Short-term investments are comprised of investments in short-term debt securities and shares with original maturities of greater than three months and the Company's available-for-sale short-term investments.

g) Financial instruments

i) Non-derivative financial assets

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

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

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

Financial assets at fair value through profit or loss

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

The Company's bonds receivable, short-term investments, and earn-out interests are classified at fair value through profit or loss with the exception of the Company's available-for-sale short-term investments.

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

3) SIGNIFICANT ACCOUNTING POLICIES (Continued)

transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

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

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. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to the statement of operations. Investments in equity securities that do not have a quoted market price and whose fair value cannot be reliably measured are recorded at cost.

The Company's available-for-sale short-term investment consists of shares held in Greenbriar Capital Corp ("Greenbriar").

ii) Non-derivative financial liabilities

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

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

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

Financial liabilities at fair value through profit or loss

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

The Company has designated interest rate swaps and holding company bonds (Sweden) which contain embedded derivatives as financial liabilities at fair value through profit or loss.

Other financial liabilities

The Company classifies all other non-derivative financial liabilities as other financial liabilities. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs.

3) SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequently, these financial liabilities are measured at amortized cost using the effective interest rate method.

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

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

iii) Share capital

Common shares

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

iv) Derivative financial instruments, including hedge accounting

Derivatives are recognized initially at fair value. Attributable transaction costs are recognized in the statement of operations as incurred. Subsequent to initial recognition, derivatives (including embedded derivatives) are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

On initial designation of a 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, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80 – 125 percent. For a cash flow hedge of a forecasted transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

When a derivative is designated as a hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in equity. The amount recognized in accumulated other comprehensive income is removed and included in profit or loss in the same period as the hedged item affects profit or loss under the same line item in the statement of operations. 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 accumulated other comprehensive income remains there until the forecasted transaction affects profit or loss. When the hedged item is a non-financial asset, the amount recognized in accumulated other comprehensive income is

3) SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 accumulated other comprehensive income is recognized immediately in profit and loss.

The Company applies hedge accounting for the Toba Montrose GP interest rate swap, the Shannon Group LLC power hedge and the holding company loan facility interest rate swaps which are designated as cash flow hedges.

Other derivatives and separable embedded derivatives

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

HS Orka has two long-term power sales agreements which contain embedded derivatives. Income from these agreements is directly correlated to changes in the future price of aluminum.

Changes in the fair value of derivatives not designated as a hedge and separable embedded derivatives are recognized immediately in the statement of operations.

h) 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.

i) Plant and equipment

i) Recognition and measurement

Plant and equipment is measured at cost, less accumulated depreciation and accumulated impairment losses. Costs include expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use and capitalized borrowing costs. When parts of an item of plant and equipment have different useful lives, they are accounted for separately. The major categories of the Company's plant and equipment include power plants, substations, turbines, boreholes, electrical systems, hot water and cold water distribution systems, transmission lines, housing, penstock, intake, roads, other operating assets and furniture and equipment. Major additions to plant and equipment, including betterments, are capitalized and repairs and maintenance are expensed.
Gains and losses on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with its carrying amount, and are recognized on a net basis within other gains and losses in the statement of operations.

3) SIGNIFICANT ACCOUNTING POLICIES (Continued)

ii) Depreciation

Depreciation of the cost of plant assets (once in operation) less its residual value is recognized on a straight-line basis over the estimated useful life of the asset. HS Orka's facility components have estimated useful lives that range from 5 to 50 years, the Toba Montrose facility components range from 2 to 70 years, and the Shannon facility components range from 3 to 45 years.

For all other plant and equipment items, depreciation of the cost of such asset less its residual amount is provided on a declining balance method with annual rates ranging from 20% to 55%.

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

j) Assets held for sale

An asset is classified as held for sale if management is committed to a plan to sell, the asset is available for immediate sale, an active plan to locate a buyer is initiated, the sale is highly probable (within 12 months of classification as held for sale, subject to limited exceptions), the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value, and actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn. Any asset classified as held for sale is measured at the lower of its carrying value or fair value less costs to sell.

k) Intangible assets

i) Development – hydro, wind, solar and geothermal development costs

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

Development expenditures are capitalized only if such 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, wind, solar and geothermal development projects. Such costs include acquisition costs, exploration and development costs (including materials, direct labour, directly attributable overhead costs and borrowing costs), net of any recoveries and grants. 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 statement of operations in the period the project is abandoned or considered impaired.

The recovery of the development costs is typically dependent upon the successful completion of the projects or their sale. The successful completion of a project is typically dependent upon receiving the necessary environmental and other licenses, the contractual arrangements to complete the development and construction of these projects, entering into a power purchase agreement ("PPA") or power hedge, 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.

3) SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Although the Company has taken steps to verify the title to development properties in which it has an interest, in accordance with industry standards for the current stage of development 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.

ii) Service concession arrangements

The Company recognizes an intangible asset arising from a service concession arrangement when it has the right to charge for usage of the concession infrastructure. An intangible asset received as consideration for providing construction or upgrade services in a service concession arrangement is measured at fair value upon initial recognition.

Subsequent to initial recognition, the intangible asset is measured at cost, which includes capitalized borrowing costs, less accumulated amortization and accumulated impairment losses.

Dokie GP’s PPA with British Columbia Hydro and Power Authority (“BC Hydro”) is considered a service concession arrangement.

iii) Other intangible assets

Other intangible assets include project permits and licenses, prepaid land tenure license amounts, First Nations Impact Benefits Agreements (“IBA”), First Nations Resource Development Agreements (“RDA”) and Memoranda of Understanding (“MOU”) costs recorded in Toba Montrose GP, Dokie GP and Jimmie Creek LP respectively, development costs acquired through a Membership Interest Purchase Agreement ("MIPA") to acquire the companies that became Shannon Wind, LLC, and software. Payments made to First Nations under terms of the IBAs, RDAs and MOUs are capitalized to intangible assets prior to the commencement of commercial operations, after which time they are amortized over the life of the project. Any payments made subsequent to the commencement of commercial operations are expensed in the statement of operations.

iv) Amortization

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

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

HS Orka has software that is amortized on a straight-line basis over terms varying from 5-10 years. IBAs and MOUs recorded in Toba Montrose GP and Dokie GP, and the Dokie GP service concession arrangement are amortized over the life of the agreements.

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

3) SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) Impairment

i) Non-derivative financial assets

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

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

ii) Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, an impairment test is performed at least annually (at the same time) or when events or changes in circumstances indicate that the related carrying amount may not be recoverable.

An impairment loss is recognized if the carrying amount of an asset or its related cash generating unit ("CGU") exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

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

An impairment loss recognized in respect of goodwill is not reversed. In respect of other assets, impairment losses are reversed if there has been a change in the estimates used to determine the recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3) SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Income taxes

(i) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss.

(ii) Deferred tax

Deferred tax is provided using the balance sheet method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets are recognized for all deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized,

Deferred tax is not recognized for:

- temporary differences on the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transactions, affects neither accounting profit nor taxable profit or loss; and

- temporary differences related to investments in subsidiaries, associates and interests in joint ventures where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venture and it is probable that the temporary difference will not reverse in the foreseeable future; and

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax relating to items recognized in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3) SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Provisions

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

o) Grants

Grants related to assets are initially recognized as deferred income at fair value if there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant; they are then recognized in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the Company for expenses incurred are recognized in profit or loss on a systematic basis in the periods in which the expenses are recognized.

Grants received by HS Orka during the year are included in other liabilities.

p) Decommissioning liability

The Company recognizes the fair value of decommissioning liabilities in the period in which a reasonable estimate of such costs can be made. The decommissioning liability is recognized at fair value and recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. A decommissioning liability has been recognized at Shannon Group LLC due to explicit requirements in the land lease agreements.

No decommissioning liability has been recognized for Toba Montrose GP, Dokie GP, or the Svartsengi and Reykjanes geothermal facilities due to the long service life of these assets and due to the low probability that these projects would ever be abandoned due to the renewable nature of the resource used to generate electricity. Annually management assess the continued longevity of an operating project and will recognize a decommissioning liability when abandonment is foreseen.

q) Revenue recognition

Revenue is recognized at the time of generation and recorded measurement of delivery to the purchasing party. Between measurements usage is estimated based on prior usage. Sales of renewable energy credits, which occur at Shannon and prior to the sale at the Soda Lake plant, are recognized in revenue when pervasive evidence of an arrangement for sale exists, the selling price is fixed or determinable, risk and rewards of ownership have passed to the purchaser and collectability is reasonably assured.

Revenue is recognized from the ecoEnergy for Renewable Power program upon metered eligible production of electricity, up to an annual maximum of 727,000 megawatt-hour (“MWh”) for Toba Montrose and 330,000 MWh for Dokie 1, based on a fiscal year with 365 days for a period of 10 years respectively from the commencement of commercial production. Amortization of below market contracts recorded on the acquisition of HS Orka are recognized on a straight-line basis over the remaining life of the respective contract and included in revenue.

3) SIGNIFICANT ACCOUNTING POLICIES (Continued)

r) Stock-based compensation

Compensation expense for stock options granted 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 to employees working on 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 or vested stock options that are cancelled remain in contributed surplus.

s) Employee benefits

The Company's net obligation in respect of defined benefit multi-employer pension plans or pension fund commitments at HS Orka is calculated separately for each plan by estimating the amount of future benefits that current and former employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. The calculation is performed annually by qualified actuaries using a method based on earned benefits. Remeasurements of the net defined liabilities related to actuarial gains and losses are recognized in other comprehensive income, and other expenses related to the defined benefit plans are recognized as incurred in the statement of operations.

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

Contributions to the defined contribution pension plan is recognized as an employee benefit expense in profit or loss in the period during which services are rendered by employees.

t) Lease accounting

At inception of long-term power sales arrangements, the Company determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if 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 that is required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. Agreements meeting the criteria as leases, which transfer to counterparties substantially all the risks and rewards of ownership of assets but not necessarily legal title, are classified as finance leases. When the Company is a lessor under finance leases the amounts due under the leases, after deduction of unearned finance income, are included in lease receivable (in the balance sheet). The finance income is recognized in finance income (in the statement of operations) over the periods of the leases so as to give a constant rate of return on the new investment in the leases. All leases are categorized as operating leases.

3) SIGNIFICANT ACCOUNTING POLICIES (Continued)

u) Finance income and costs

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

Finance costs are comprised of interest expense on borrowings and unwinding of the discount on provisions. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in the statement of operations using the effective interest rate method.

v) Comparative figures

Certain of the comparative year figures have been reclassified to conform to the current year's presentation.

w) Changes in accounting standards

The Company has adopted the following new IFRS standards, along with any consequential amendments, effective January 1, 2015. These changes were made in accordance with the applicable transitional provisions. The nature and impact of each new standard and amendment applicable to the Company are described below:

IFRS 8 - Operating segments

Operating segments (amendments to IFRS 8) was amended to require disclosure of the judgments made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. The amendment is effective for annual periods commencing on or after July 1, 2014. The adoption of this standard has no impact on the consolidated financial statements.

IAS 19 - Employee benefits

Employee benefits (amendments to IAS 19) was amended to clarify the application of IAS 19 to plans that require employees or third parties to contribute toward the cost of benefits. The amendment is effective for annual periods beginning on or after July 1, 2014. There is an additional amendment to clarify the guidance on discount rates for post-employment benefit obligations. The adoption of this standard did not have an impact on the consolidated financial statements.

At December 31, 2015, a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for these consolidated financial statements. Those which may be relevant to the Company's consolidated financial statements are set out below:

IFRS 9: Financial instruments

Financial instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014 and replaces IAS 39. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income, and fair value through profit and loss. A financial asset would be measured at amortized cost if it is held within a business model whose

3) SIGNIFICANT ACCOUNTING POLICIES (Continued)

objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The new standard also requires a single impairment method to be used, adds guidance on the classification and measurement of financial liabilities, and provides a new general hedge accounting standard. The effective date is January 1, 2018 but may be adopted early at the Company's discretion. The Company is currently evaluating the impact of these amendments.

IFRS 15 - Revenue from contracts with customers

Revenue from contracts with customers is a new standard superseding IAS 18 - Revenue, IAS 11 - Construction contracts and related interpretations. The new standard is effective for interim periods within years beginning on or after January 1, 2018. The Company is currently evaluating the impact of these amendments.

IFRS 16 - Leases

Leases specifies how an issuer will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset has an insignificant value. The effective date is January 1, 2019. The Company is currently evaluating the impact that adoption of the standard is expected to have on its consolidated financial statements.

4) CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimations (note 5), that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

(a) Determination of cash generating units

In performing impairment assessments of assets that cannot be assessed individually are grouped together, in management's judgment, into the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

(b) Determination of functional currency

The functional currency for each of the Company's subsidiaries, joint ventures and investments in associates is the currency of the primary economic environment in which the entity operates. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

(c) Purchase price allocations

Purchase prices related to business combinations are allocated to the underlying acquired assets and liabilities based on their estimated fair value at the time of acquisition. The determination of fair value requires the Company to make assumptions, estimates and judgments regarding future events. The allocation process is inherently subjective and impacts the amounts assigned to individually identifiable assets and liabilities. As a result, the purchase price allocation impacts the Company's reported assets and liabilities and future net earnings due to the allocation's impact on future depreciation and amortization expense and impairment tests.

4) CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

(d) Determining control or significant influence of an investee

The determination of whether the Company has control or significant influence over an investee requires the Company to make assumptions and judgments in evaluating the classification requirements.

5) KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of consolidated financial statements requires that the Company's management makes assumptions and estimates of effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of each reporting period. The estimation process is inherently uncertain, therefore future outcomes could differ from present estimates and assumptions, potentially having a material effect on the Company's future results and disclosures. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

Aspects of the Company's financial reporting that require the use of significant assumptions and that have a significant risk of resulting in a material adjustment to the carrying amounts of the Company's assets and liabilities are as follows:

(a) Impairment of assets; geothermal, hydro, and wind development costs, plant and equipment and goodwill (notes 17 and 19-22)
(b) Fair value of financial instruments including embedded derivatives (note 32)
(c) Income taxes (note 35)
(d) Amortization of plant and equipment (note 17)
(e) Pension fund obligations (note 25)
(f) Bond receivable (note 14)
(g) Long-term receivable (note 15)
(h) Initial investment of Jimmie Creek and Shannon (notes 10 and 11)

6) RESTRICTED CASH

As at December 31, 2015, there is $10.8 million in restricted cash (December 31, 2014 - $9.7 million). HS Orka has $4.5 million of its cash balance dedicated to loan payments in accordance with a collateral agreement concluded in March 2010 with HS Orka's lenders (December 31, 2014 – $4.5 million). HS Orka holds an additional $5.7 million related to a grant that HS Orka is participating in and administering, which was received and is to be distributed to HS Orka's partners in the project (see also note 23). The remaining $0.6 million is held in escrow for the Company's holding company bondholders (Sweden).

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

7) INVESTMENT IN ASSOCIATES

	Note	December 31, 2015	December 31, 2014
Toba Montrose GP	8	**$ 21,961**	$ 26,977
Dokie GP	9	**8,020**	8,269
Jimmie Creek LP	10	**34,034**	40,809
Shannon Group LLC	11	**62,392**	—
Blue Lagoon	12	**24,484**	20,834
Geothermal development projects:			
Mariposa	13	**18,579**	22,525
Peru concessions	13	**2,007**	2,395
Italy	13	**803**	995
Other investments		**2,177**	2,587
Total		**$ 174,457**	$ 125,391

8) INVESTMENT IN TOBA MONTROSE GP

a) The Company holds a 51% non-participating and voting interest in the partnership and 40% non-voting and participating interest in Toba Montrose GP (economic interest). In 2046, the Company's economic interest will increase to 51% for no additional consideration and its partner's economic interest in Toba Montrose GP will decrease from 60% to 49%.

b) The Company's economic interest in the assets, liabilities, revenue and expenses and cash flows of Toba Montrose GP is accounted for under the equity method of accounting (as the partnership is a joint venture). Amounts included in these consolidated financial statements are further described as follows:

Investment in Toba Montrose GP	
Investment at January 1, 2014	$ 39,879
Share of comprehensive income	2,453
Distributions received	(12,117)
Foreign exchange	(3,238)
Investment at December 31, 2014	$ 26,977
Share of comprehensive income	4,873
Distributions received	(5,463)
Foreign exchange	(4,426)
Investment at December 31, 2015	**$ 21,961**

The following tables summarize the financial information of Toba Montrose GP as included in its own financial statements, adjusted for fair value adjustments at acquisition, and reconcile the financial information to the Company's carrying value of Toba Montrose GP:

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

8) INVESTMENT IN TOBA MONTROSE GP (Continued)

	December 31, 2015	December 31, 2014
Cash and cash equivalents	**$ 17,562**	$ 15,185
Trade and other receivables	**1,798**	2,532
Prepaid expenses	**3,018**	3,291
Plant and equipment	**396,710**	481,526
Intangible assets	**5,572**	7,660
Other assets	**1,215**	1,878
	425,875	512,072
Accounts payable and accrued liabilities	**4,757**	6,263
Long-term debt	**319,359**	385,288
Interest rate swaps	**42,859**	48,123
	366,975	439,674
Net assets (100%)	**$ 58,900**	$ 72,398
Share of net assets (40%)	**23,560**	28,959
Purchase price adjustments	**(1,599)**	(1,982)
Share of net assets (40%)	**$ 21,961**	$ 26,977

	Year ended December 31, 2015	Year ended December 31, 2014
Revenue	**$ 61,845**	$ 71,492
Cost of sales	**(9,460)**	(10,905)
Depreciation and amortization	**(10,116)**	(11,570)
Interest expense	**(22,409)**	(26,002)
Property insurance proceeds	**—**	1,979
Other expenses	**(5,204)**	(7,876)
Unrealized gain (loss) on interest rate swaps	**(2)**	708
Net income (100%)	**$ 14,654**	$ 17,826
Share of net income (40%)	**5,862**	7,130
Purchase price adjustments	**69**	168
Share of net income (40%)	**$ 5,931**	$ 7,298

	Year ended December 31, 2015	Year ended December 31, 2014
Other comprehensive loss (100%)	**$ (2,646)**	$ (12,113)
Share of other comprehensive loss (40%)	**(1,058)**	(4,845)
Share of net income (40%)	**5,931**	7,298
Share of comprehensive income (40%)	**$ 4,873**	$ 2,453

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

8) INVESTMENT IN TOBA MONTROSE GP (Continued)

Toba Montrose GP's other comprehensive loss consists solely of changes in the value of the effectively hedged portion of Toba Montrose GP's interest rate swap hedging instrument.

The Company's 40% share of long-term debt repayments as at December 31, 2015 is as follows:

	Principal	Interest	Total
2016	$ 1,591	$ 8,192	$ 9,783
2017	1,692	8,086	9,778
2018	1,800	7,979	9,779
2019	1,914	7,865	9,779
2020	2,036	7,749	9,785
Thereafter	120,171	119,606	239,777
Total	**$ 129,204**	**$ 159,477**	**$ 288,681**

Note: The debt repayments in the table above do not include the effect of purchase price adjustments assumed upon acquisition.

Toba Montrose GP is subject to certain covenants regarding its loan agreements and as at December 31, 2015 was in compliance with all debt covenants.

Subsequent to year end, Toba Montrose GP declared and paid a C$5.0 million distribution of which the Company's share was C$2.0 million.

9) INVESTMENT IN DOKIE GP

a) The Company holds a 25.5% interest in Dokie GP.

b) The Company's economic interest in the assets, liabilities, revenue and expenses and cash flows of Dokie GP is accounted for under the equity method (as the partnership is a joint venture). Amounts included in these consolidated financial statements are further described as follows:

Investment in Dokie GP	
Investment at January 1, 2014	$ 9,648
Share of comprehensive income	536
Distributions received	(1,147)
Foreign exchange	(768)
Investment at December 31, 2014	$ 8,269
Share of comprehensive income	1,826
Distributions received	(669)
Foreign exchange	(1,406)
Investment at December 31, 2015	**$ 8,020**

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

9) INVESTMENT IN DOKIE GP (Continued)

The following tables summarize the financial information of Dokie GP as included in its own financial statements, adjusted for fair value adjustments at acquisition, and reconcile the financial information to the Company's carrying value in Dokie GP:

	December 31, 2015	December 31, 2014
Cash and cash equivalents	$ 7,664	$ 3,508
Restricted cash (debt service reserve)	4,990	6,280
Trade and other receivables	3,656	4,294
Prepaid expenses	828	637
Plant and equipment	121	128
Intangible assets	128,136	160,406
	145,395	175,253
Accounts payable and accrued liabilities	412	2,577
Long-term debt	108,725	133,927
	109,137	136,504
Net assets (100%)	$ 36,258	$ 38,749
Share of net assets (25.5%)	9,246	9,881
Purchase price adjustments	(1,226)	(1,612)
Share of net assets (25.5%)	$ 8,020	$ 8,269

	Year ended December 31, 2015	Year ended December 31, 2014
Revenue	$ 31,005	$ 29,927
Cost of sales	(6,948)	(8,173)
Depreciation and amortization	(6,928)	(8,023)
Interest expense	(8,712)	(10,414)
Other expenses	(1,494)	(1,789)
Net income (100%)	$ 6,923	$ 1,528
Share of net income (25.5%)	1,765	390
Purchase price adjustments	61	146
Share of net income and comprehensive income (25.5%)	$ 1,826	$ 536

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

9) INVESTMENT IN DOKIE GP (Continued)

The Company’s 25.5% share of long-term debt repayments as at December 31, 2015 is as follows:

	Principal	Interest	Total
2016	$ 885	$ 1,987	$ 2,872
2017	780	1,925	2,705
2018	1,356	1,860	3,216
2019	1,392	1,764	3,156
2020	1,616	1,662	3,278
Thereafter	22,271	9,546	31,817
Total	**$ 28,300**	**$ 18,744**	**$ 47,044**

Note: The debt repayments in the table above do not include the affect of purchase price adjustments assumed upon acquisition.

In 2009, Dokie GP entered into a 25 year PPA with BC Hydro to supply all the electricity generated by Dokie 1 to BC Hydro. Completion of construction and sale of electricity to BC Hydro commenced in February 2011. As this PPA is determined to fall within International Financial Reporting Interpretations Committee ("IFRIC") 12 Service Concession Arrangements, the costs associated with the construction of this project have been classified as an intangible asset. As at December 31, 2015, Dokie GP recorded an amount of $125.5 million (December 31, 2014: $157.2 million) in its books, of which the Company’s proportionate interest is $32.0 million (December 31, 2014: $40.1 million).

Dokie GP is subject to certain covenants regarding its loan agreements and as at December 31, 2015 was in compliance with all debt covenants.

The Company achieved a C$0.8 million earn-out from Axium Infrastructure Inc. ("Axium") related to the partial sale of Dokie 1 in 2013 as a result of the generation target being met in 2015.

Subsequent to year end, Dokie GP declared and paid a C$12.0 million distribution of which the Company's share was C$3.1 million.

10) INVESTMENT IN JIMMIE CREEK LP

a) In 2014, the Company entered into a partnership agreement with Axium and following completion of project financing (see below), Axium owns 49% of the project and as a result the Company derecognized the assets and liabilities associated with the Jimmie Creek construction project and recorded a 51% interest in the Jimmie Creek LP at fair value.

   The Company completed a C$176.5 million non-recourse loan facility in 2014. The construction plus term non-recourse loan facility is priced at a fixed rate of 5.26% and will amortize over 40 years upon achievement of commercial operation, except for the final 10% of principal which will be paid at maturity. Prior to closing the financing, the construction of the project was solely funded by the Company, resulting in advances in excess of its required equity contribution. On October 17, 2014, the Company received a return of excess equity of $20.3 million.

   Jimmie Creek is being constructed under an engineering, procurement, construction and management ("EPCM") contract with an affiliate of SNC Lavalin Inc. During the year, intake and penstock construction was completed along with construction of the tailrace outlet structures and removal of the lower river diversion with work continuing on the powerhouse and installation of the generators.

b) The Company's economic interest in the assets, liabilities, revenue and expenses, and cash flows of Jimmie Creek LP is accounted for under the equity method (as the partnership is a joint venture). The Company's initial investment in Jimmie Creek LP was recorded at a fair value of $42.1 million based on a discounted cash flow model and discount rate of 6.8%. A 0.5% change in the discount rate would have

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

10) INVESTMENT IN JIMMIE CREEK LP (Continued)

resulted in an increase of $3.5 million or decrease of $3.0 million in the initial fair value of the Company's investment in Jimmie Creek LP. Amounts included in these consolidated financial statements are further described as follows:

Investment in Jimmie Creek LP		
Initial investment at October 14, 2014	$	42,131
Share of comprehensive income		—
Foreign exchange		(1,322)
Investment at December 31, 2014	$	40,809
Share of comprehensive loss		(182)
Foreign exchange		(6,593)
Investment at December 31, 2015	**$**	**34,034**

The following table summarizes the financial information of Jimmie Creek LP as included in its own financial statements, adjusted for fair value adjustments, and reconcile the financial information to the Company's carrying value in Jimmie Creek LP:

		December 31, 2015		December 31, 2014
Cash reserved for construction activities	**$**	**5,080**	$	2,960
Cash held in escrow restricted for construction		**5,985**		14,565
Other receivables		**846**		878
Builders' lien holdback deposits		**5,066**		1,593
Equity contribution receivable from partner		**18,033**		21,513
Plant and equipment		**127,535**		67,831
Intangible assets		**212**		103
		162,757		109,443
Accounts payable and accrued liabilities		**10,019**		9,812
Lien holdback liability		**5,824**		2,033
Long-term debt		**110,455**		53,694
		126,298		65,539
Net assets (100%)	**$**	**36,459**	$	43,904
Share of net assets (51%)		**18,590**		22,391
Fair value adjustments		**15,444**		18,418
Share of net assets (51%)	**$**	**34,034**	$	40,809

		Year ended December 31, 2015		Period of initial investment to December 31, 2014
Other expenses	**$**	**(532)**	$	—
Insurance proceeds		**176**		—
Net loss (100%)		**(356)**		—
Share of net loss and comprehensive loss (51%)	**$**	**(182)**	$	—

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

10) INVESTMENT IN JIMMIE CREEK LP (Continued)

Long-term debt at December 31, 2015 reflects the amounts drawn on the loan facility (net of transaction fees). Following conversion of the loan from a construction to a term loan, projected to occur in 2016, Jimmie Creek LP will commence making principal repayments in 2017.

The Company's 51% share of long-term debt repayments is forecast as follows:

	Principal	Interest	Total
2016	$ —	$ 2,498	$ 2,498
2017	1,134	3,417	4,551
2018	273	3,357	3,630
2019	341	3,343	3,684
2020	375	3,325	3,700
Thereafter	62,899	89,603	152,502
Total	**$ 65,022**	**$ 105,543**	**$ 170,565**

Note: This schedule is based on the Company's net interest of the full loan amount of C$176.5 million, at December 31, 2015 only $110.5 million had been drawn.

11) INVESTMENT IN SHANNON GROUP LLC

a) On June 30, 2015, affiliates of the Company and Starwood Energy Group Global, LLC ("Starwood") (collectively the "Sponsors") entered into a partnership agreement at Shannon Group LLC under which each party owns 50% of the sponsor equity of Shannon Wind Holdings, LLC ("Holdings"), the partnership entity which beneficially owns Shannon. Starwood contributed $62.7 million of cash and the Company contributed assets along with a cash payment of $6.9 million. Prior to entering into the partnership agreement, the Company owned 100% of Shannon Group LLC. Since the project is now under joint control, the Company classifies its ownership as an equity investment. Under the terms of the partnership agreement, the Company will continue to manage the project.

On the same day, the Company and Starwood completed a $286.8 million credit facility for Shannon supplied by affiliates of Citibank N.A., Santander Bank, N.A. and the Royal Bank of Canada, consisting of a $212.2 million construction loan plus $74.6 million in various letters of credit. The interest rate on the loan is a spread above the London Interbank Offered Rate.

Shannon was constructed in Clay County, Texas under a construction services agreement with M.A. Mortenson Company. The project achieved commercial operations on December 10, 2015 with a total capacity of 204 MW. Following the commissioning of all 119 turbines, Shannon completed tax equity funding with subsidiaries of Berkshire Hathaway Energy and Citicorp North America ("Tax Equity Investors") for $218.8 million. The proceeds were used to retire the full project construction loan and to allow a return of capital to the Company and Starwood of $7.0 million for unused contingency. Shannon will sell the majority of its output under a long-term power hedge agreement with Citigroup Energy Inc. beginning in June 2016 and until that time all power sold will be subject to merchant spot price.

One of the primary incentives for renewable energy in the United States has been the production tax credits ("PTC") program, whereby companies that generate electricity from renewable energy sources, including wind, are eligible for tax credits which provide a tax benefit for each unit of generation for the first ten years of the facility's operation. Tax Equity Investors are allocated 99% of Shannon's taxable income (losses) and a minority portion of the cash generated until they achieve an agreed after-tax investment return (the "Flip Point"). After the Flip Point, the Tax Equity Investors

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

11) INVESTMENT IN SHANNON GROUP LLC (Continued)

will be allocated 5% of cash distributions and taxable income (losses), and Shannon Group LLC will be allocated 95% of all cash distributions and taxable income (losses).

b) The Company's economic interest in the assets, liabilities, revenue and expenses and cash flows of Shannon Group LLC are accounted for under the equity method (as the partnership is a joint venture). The Company's initial investment in Shannon Group LLC was recorded at fair value of $62.7 million based on the purchase price paid by Starwood for its 50% investment. The Company received a $1.5 million developer's fee upon financial close, which combined with the fair value of the investment resulted in a gain of $1.1 million, as follows:

Net assets in Shannon Group LLC prior to deconsolidation:

Development costs (note 21)	$	69,098
Other assets		10,360
Accounts payable		(15,742)
Lien holdback liability		(1,742)
Other liabilities		(5,778)
Net assets	$	56,196

Gain on deconsolidation of Shannon Group LLC:

Fair value of investment	$	62,702
Developer's fee (note 31)		1,500
Carrying value of net assets		(56,196)
Cash payment		(6,927)
Gain on deconsolidation	$	1,079

The continuity of the Company's investment in Shannon Group LLC is as follows:

Investment in Shannon Group LLC		
Initial investment at June 30, 2015	$	62,702
Share of net income and comprehensive income		3,190
Return of capital		(3,500)
Investment at December 31, 2015	**$**	**62,392**

Shannon Group LLC equity accounts for the investment in Holdings, the entity that owns and operates Shannon. The following tables summarize the financial information of Shannon Group LLC as included in its own financial statements, adjusted for fair value adjustments at acquisition, and reconcile the financial information to the Company's carrying value of Shannon Group LLC:

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

11) INVESTMENT IN SHANNON GROUP LLC (Continued)

		December 31, 2015
Investment in Holdings	$	124,813
		124,813
Accounts payable and accrued liabilities		30
		30
Net assets (100%)		124,783
Share of net assets (50%)	$	62,392

Subsequent to tax equity funding on December 14, 2015, the results of Holdings are calculated in accordance with the hypothetical liquidation at book value ("HLBV") method. The HLBV method allocates earnings or losses by measuring the distribution amounts that would be due to the members in a hypothetical liquidation of the entity at the net book value of the underlying assets. The HLBV method is consistent with accounting guidance which prescribes using this method for allocations where tax equity investors are present and is the method that most appropriately reflects how an increase or decrease in net assets of the venture will affect cash payments to the investor (both sponsors and tax equity investors) over the life of the venture and upon its liquidation.

		Period from initial investment to December 31, 2015
Revenue	$	96
General and administrative expenses		(329)
Loss on settlement of contingent liability (original developer's fee)		(743)
Gain on power hedge		18,693
Share of income from equity accounted investee		271
Loss on deconsolidation of equity accounted investee		(1,956)
Insurance deductibles		(300)
Net income (100%)		15,732
Share of net income (50%)	$	7,866

		Period from initial investment to December 31, 2015
Other comprehensive loss (100%)	$	(9,352)
Share of other comprehensive loss (50%)		(4,676)
Share of net income (50%)		7,866
Share of comprehensive income (50%)	$	3,190

Shannon Group LLC's other comprehensive loss consists solely of changes in the value of the effectively hedged portion of Shannon's long-term power hedge.

Shannon adopted hedge accounting on September 30, 2015 for the long-term power hedge agreement, and from inception of the power hedge on June 30, 2015 to the adoption of hedge accounting a gain of $18.7 million was recorded in the statement of operations.

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

11) INVESTMENT IN SHANNON GROUP LLC (Continued)

During the year there were three insurable events at Shannon: two floods due to heavy rainfall, and a grass fire. The damage is fully insured subject to deductibles.

In accordance with *IAS 16: Property, Plant and Equipment (IAS 16)* the damaged equipment was written off at September 30, 2015, and the costs to replace the damaged equipment have been capitalized to plant and equipment in the current year. Costs associated with removal of the damaged equipment together with certain other repair-related costs and the deductibles for have been expensed. The property insurance proceeds are recorded as income and are included in the Company's share of results of equity from Shannon Group LLC.

Tax equity investors in US wind projects generally require sponsor guaranties as a condition to their investment. To support the tax equity investment in Holdings, the Company executed a guaranty of the tax equity investment by the Tax Equity Investors indemnifying them against certain breaches of project level representations, warranties and covenants and other events. The Company believes the indemnification covers matters which are substantially under the Company's control, and are very unlikely to occur.

12) INVESTMENT IN BLUE LAGOON

On January 1, 2015 HS Orka held a 33% interest in Blue Lagoon, which operates the Blue Lagoon geothermal spa in Iceland. During the second quarter of 2015 Blue Lagoon issued additional shares reducing HS Orka's interest from 33% to 30%, which resulted in a gain of $2.0 million to the Company. The gain is included in share of results of equity investments.

The following tables summarize the financial information of Blue Lagoon as included in its own financial statements, adjusted for fair value adjustments at acquisition, and reconcile the financial information to the Company's carrying value in Blue Lagoon:

	December 31, 2015	December 31, 2014
Cash and cash equivalents	**$ 27,932**	$ 14,757
Trade and other receivables	**2,607**	2,176
Prepaid expenses	**2,347**	2,381
Plant and equipment	**45,201**	40,407
Other assets	**2,920**	3,315
	81,007	63,036
Accounts payable and accrued liabilities	**5,713**	3,672
Other liabilities	**7,851**	7,230
Long-term debt	**25,876**	30,232
	39,440	41,134
Net assets (100%)	**$ 41,567**	$ 21,902
Share of net assets (30% in 2015 and 33% in 2014)	**12,483**	7,228
Purchase price adjustments	**12,001**	13,606
Share of net assets	**$ 24,484**	$ 20,834

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

12) INVESTMENT IN BLUE LAGOON (Continued)

	Year ended December 31, 2015	Year ended December 31, 2014
Revenue	**$ 60,283**	$ 52,916
Cost of sales	**(36,735)**	(30,356)
Interest expense	**(829)**	(1,636)
Depreciation	**(2,032)**	(1,805)
Other income	**1,193**	(69)
Income tax	**(4,436)**	(3,814)
Net income (100%)	**$ 17,444**	$ 15,236
Share of net income[(a)]	**5,495**	5,028
Purchase price adjustments	**(394)**	(286)
Gain on dilution of HS Orka's investment	**1,998**	—
Share of net income[(a)]	**$ 7,099**	$ 4,742

(a) HS Orka's share of net income represents the 33% in 2014 and for the first half of 2015 and 30% thereafter.

In 2015, HS Orka received a dividend of $2.7 million (2014 - $2.8 million) from Blue Lagoon.

13) INVESTMENT IN GEOTHERMAL DEVELOPMENT PROJECTS

a) South America:

The Company holds a 30% interest in joint ventures with Energy Development Corporation for the development of the Mariposa project in Chile, and certain geothermal development assets in Peru.

The continuity of the Company's investment in South American geothermal properties is as follows:

	Mariposa	Peru	Total
Investment at January 1, 2014	$ 24,478	$ 729	$ 25,207
Initial investment - Peru joint venture - January 2014	—	2,571	2,571
Share of comprehensive loss	(55)	—	(55)
Write-off of 2013 Peru joint venture	—	(682)	(682)
Foreign exchange	(1,898)	(223)	(2,121)
Investment at December 31, 2014	22,525	2,395	24,920
Share of comprehensive loss	(326)	—	(326)
Foreign exchange	(3,620)	(388)	(4,008)
Investment at December 31, 2015	**$ 18,579**	**$ 2,007**	**$ 20,586**

b) Italy:

The Company holds a 45% interest in a joint venture with an affiliate of Graziella Green Power. The joint venture is further developing the Mensano and Roccastrada geothermal concessions.

The continuity of the Company's investment in Italian geothermal development projects is as follows:

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

13) INVESTMENT IN GEOTHERMAL DEVELOPMENT PROJECTS (Continued)

		Italy Projects
Investment at January 1, 2014	$	1,466
Share of comprehensive loss		(321)
Foreign exchange		(150)
Investment at December 31, 2014		995
Share of comprehensive loss		(89)
Foreign exchange		(103)
Investment at December 31, 2015	**$**	**803**

14) BONDS RECEIVABLE

The bonds receivable of $2.1 million at December 31, 2015 (December 31, 2014 - $2.6 million) are denominated in ISK (December 31, 2015 - ISK 271 million; December 31, 2014 - ISK 333 million) and have a stated interest rate of 5% plus indexation to the Icelandic Consumer Price Index. They are paid in annual installments and mature in 2019. No overdue amounts are outstanding as at December 31, 2015; however, there have been indications of an uncertain financial position of the bond holder and thus there is some uncertainty about the full recoverability of the bond.

15) LONG-TERM RECEIVABLE AND OTHER ASSETS

		December 31, 2015		December 31, 2014
Long-term receivable	**$**	**3,875**	$	3,102
Other assets		**1,643**		11,438
Total	**$**	**5,518**	$	14,540

The long-term receivable represents amounts due from HS Veitur hf ("HS Veitur") due to its share of a pension liability (note 25). HS Veitur has disputed the amount owing, but the Company believes the agreement in place to be valid.

Other assets of $1.6 million consist primarily of deposits and potential earn-out payments associated with the partial sale of the Company's interest in Dokie GP in 2013 and with the sale of the Soda Lake geothermal facility in January 2015 (note 28). The Dokie GP earn-out related to 2015 generation was achieved during the year, and the C$0.8 million payment was received in early 2016.

In 2014, other assets consisted primarily of a $10.1 million cash security deposit with Oncor Electirc Delivery Company, LLC, the transmission service provider for Shannon, which was refunded back to the Company in 2015.

16) PREPAID LEASE AND ROYALTY FEE

In 2011, HS Orka exercised the right to convert a long-term receivable with a municipality into a prepaid royalty fee and land lease. The prepaid royalty fee and land lease is classified as long-term and will be expensed over the life of the lease (60 years).

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

17) PLANT AND EQUIPMENT

	Plant and Equipment	Furniture and Equipment	Assets Under Construction	Total
Cost				
Balance, January 1, 2014	$ 334,470	$ 1,241	$ 33,343	$ 369,054
Additions	8,683	25	533	9,241
Disposals	(184)	(309)	—	(493)
Transfer	730	—	(730)	—
Reclassification of assets held for sale	(12,342)	(627)	—	(12,969)
Effect of movement in exchange rates	(32,240)	(22)	(3,241)	(35,503)
Balance, December 31, 2014	$ 299,117	$ 308	$ 29,905	$ 329,330
Additions	17,708	22	320	18,050
Disposals	(281)	(25)	—	(306)
Transfer	5,382	—	(5,382)	—
Effect of movement in exchange rates	(5,569)	(23)	(652)	(6,244)
Balance, December 31, 2015	**$ 316,357**	**$ 282**	**$ 24,191**	**$ 340,830**
Depreciation and impairment losses				
Balance, January 1, 2014	$ (36,109)	$ (977)	$ —	$ (37,086)
Depreciation for the year	(12,039)	(62)	—	(12,101)
Disposals	108	259	—	367
Reclassification of assets held for sale	996	511	—	1,507
Effect of movement in exchange rates	4,477	19	—	4,496
Balance, December 31, 2014	$ (42,567)	$ (250)	$ —	$ (42,817)
Depreciation for the year	(10,404)	(22)	—	(10,426)
Disposals	221	21	—	242
Effect of movement in exchange rates	969	19	—	988
Balance, December 31, 2015	**$ (51,781)**	**$ (232)**	**$ —**	**$ (52,013)**
Carrying amounts:				
At December 31, 2014	$ 256,550	$ 58	$ 29,905	$ 286,513
At December 31, 2015	**264,576**	**50**	**24,191**	**288,817**

a) Capital commitments

The Company commenced construction of a new discharge pipe system for the Svartsengi plant in 2013 and construction will be completed in 2016. Once the discharge system is operating, additional geothermal fluid can be extracted from the reservoir resulting in the potential for increased power generation. The Company has also commenced a drilling program for two new production wells at Svartsengi. One well was completed during the year and the second well was completed in early 2016. These wells will be connected to the plant in mid-2016. Work continued on connecting the reinjection well at Reykjanes and reinjection commenced in March 2016. The incremental capital commitment for these projects is approximately $3.9 million in 2016.

b) Pledge of assets

The Company's power plants at Reykjanes and Svartsengi are pledged as collateral for some of the HS Orka loans. The value of collateral required has decreased to $67.4 million (December 31, 2014 - $83.8 million) due to repayments of these loans during the year (note 24(c)).

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

17) PLANT AND EQUIPMENT (Continued)

c) Impairment test

The Company reviews the carrying values of its long-lived assets, including plant and equipment, on a regular basis as events or changes in circumstances may warrant. Due to the allocation of geothermal property rights and goodwill to the CGU associated with the HS Orka power plants and the Reykjanes expansion (classified as assets under construction) an annual impairment test is performed. See note 22 for key assumptions applied. As the recoverable amount was found to exceed the carrying value, no impairment was taken.

d) Assets under construction

Assets under construction represent capitalized costs that are related to a planned expansion at Reykjanes.

18) DEVELOPMENT COSTS

	Notes	December 31, 2015	December 31, 2014
Geothermal	19	**$ 55,093**	$ 56,961
Hydro	20	**2,927**	239
Wind	21	**209**	16,098
Total		**$ 58,229**	$ 73,298

19) GEOTHERMAL DEVELOPMENT COSTS

The continuity of the Company's geothermal property rights owned in Iceland at December 31, 2015 is as follows:

	Balance, January 1, 2015	Depletion	Foreign exchange	Balance, December 31, 2015
Geothermal property rights - operating	$ 45,739	$ (753)	$ (895)	$ 44,091
Geothermal property rights - expansion	11,222	—	(220)	11,002
	$ 56,961	**$ (753)**	**$ (1,115)**	**$ 55,093**

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

19) GEOTHERMAL DEVELOPMENT COSTS (Continued)

The continuity of the Company's geothermal development properties for the year ended December 31, 2014 is as follows:

	Balance January 1, 2014	Development Costs	Depletion	Effect of Reporting Currency Translation	Reclassification	Write-off	Balance December 31, 2014
USA - Nevada							
McCoy	$ 1,500	$ 34	$ —	$ —	$ (1,534)	$ —	$ —
Desert Queen	1,500	23	—	—	(1,523)	—	—
Granite Springs	730	67	—	—	(797)	—	—
Hawthorne	817	3	—	—	(820)	—	—
Peru							
Huaynaputina	155	—	—	(2)	(153)	—	—
Casiri	164	—	—	(2)	(162)	—	—
Ccollo	154	—	—	(3)	(151)	—	—
Ticsani	160	—	—	(1)	(159)	—	—
San Pedro	73	—	—	(2)	(71)	—	—
Pinchollo	67	—	—	(2)	(65)	—	—
Ancoccollo	55	—	—	(1)	(54)	—	—
Pasto	209	—	—	(4)	(205)	—	—
Atarani	170	—	—	(3)	(167)	—	—
Panejo	172	—	—	(3)	(169)	—	—
Suche	178	—	—	(2)	(176)	—	—
Canada							
Upper Lillooet	297	—	—	(11)	—	(286)	—
Iceland							
Geothermal property rights - operating	51,502	—	(834)	(4,929)	—	—	45,739
Geothermal property rights - expansion	12,435	—	—	(1,213)	—	—	11,222
	$ 70,338	**$ 127**	**$ (834)**	**$ (6,178)**	**$ (6,206)**	**$ (286)**	**$ 56,961**

a) Impairment

The Company reviews the carrying values of geothermal development properties on an annual basis. The recoverable amounts of the geothermal development assets were determined using discounted cash flow calculations to estimate the value of development properties using cash flows forecast for periods up to 35 years. Key assumptions used in these cash flow forecasts included estimated energy prices which the Company's management determined with reference to expected prices in power purchase agreements, estimated cost to complete construction of the assets and expected operating costs, an after-tax discount rate of 8.1% and inflation rate of 2.0% (refer to note 22 for further information).

During the year ended December 31, 2015, no write-downs were recorded (December 31, 2014 - $0.3 million). Upon reclassification of the geothermal assets in the US to "held for sale" in 2014, the assets were written down to their fair value less costs to sell (note 28).

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

20) HYDRO DEVELOPMENT COSTS

The continuity of the Company's hydro development expenditures is as follows:

	Jimmie Creek	Other Hydro Development	Total Hydro Development
Balance, January 1, 2014	$ 16,960	$ 44	$ 17,004
Engineering and hydrology	43,190	202	43,392
Permitting	986	5	991
Community consultations	292	1	293
Acquisition of 40% of Jimmie Creek [a]	1,737	—	1,737
Foreign exchange impact	(1,487)	(13)	(1,500)
Expenditures reimbursed by partnership	(20,336)	—	(20,336)
Contribution of Jimmie Creek project to Jimmie Creek LP	(41,342)	—	(41,342)
Balance, December 31, 2014	$ —	$ 239	$ 239
Engineering and hydrology	—	398	398
Permitting	—	325	325
Community consultations	—	17	17
Acquisition of Vesturverk	—	2,199	2,199
Foreign exchange impact	—	(251)	(251)
Balance, December 31, 2015	**$ —**	**$ 2,927**	**$ 2,927**

(a) Included in the purchase price of the acquisition of the 49% ownership stake in Jimmie Creek from an affiliate of GE Energy Financial Services ("GE EFS") was C$1.0 million representing GE EFS's portion of the Company's historical cash spend on Dokie 2.

a) Jimmie Creek

In early 2014, the Company completed the acquisition of the 49% interest in Jimmie Creek LP held by GE EFS which brought its ownership interest to 100%.

On October 14, 2014, the Company completed a C$176.5 million non-recourse loan facility and contributed the Jimmie Creek construction project to Jimmie Creek LP and as a result the Company derecognized the assets and liabilities associated with the Jimmie Creek construction project and recorded a 51% interest in Jimmie Creek LP at fair value. The Company accounts for its investment in Jimmie Creek LP as an equity investment (note 10).

b) Other hydro projects

During the year HS Orka completed a step-up acquisition resulting in 52.5% ownership of Vesturverk ehf. which owns 100% of the 55 MW Hvalá and 10 MW Skúfnavatnavirkjun projects and as a result HS Orka consolidates 100% of these projects. HS Orka also holds the interests in the 9 MW Brúarvirkjun hydro project in Iceland. The Company holds interests in the 15 MW Tahumming hydro project and South Toba projects (each project expected 10-15 MW generation capacity) located near the Company's existing Toba Montrose and Jimmie Creek projects, and are situated along the Toba Montrose transmission line.

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

21) WIND DEVELOPMENT COSTS

The continuity of the Company's wind development expenditures is as follows:

	Shannon	Dokie 2	Other	Total
Balance, January 1, 2014	$ —	$ 18,942	$ —	$ 18,942
Acquisition of Shannon	8,265	—	—	8,265
Engineering	7,160	45	8	7,213
Permitting	421	9	85	515
Professional services	192	1	—	193
Reclassification to Jimmie Creek [(a)]	—	(967)	—	(967)
Write-off of wind development costs	—	(16,811)	—	(16,811)
Foreign exchange impact	(29)	(1,219)	(4)	(1,252)
Balance, December 31, 2014	$ 16,009	$ —	$ 89	$ 16,098
Engineering and construction	44,179	—	91	44,270
Professional fees	7,674	—	—	7,674
Permitting	1,281	—	55	1,336
Foreign exchange	(45)	—	(26)	(71)
Deconsolidation of Shannon (note 11)	(69,098)	—	—	(69,098)
Balance, December 31, 2015	**$ —**	**$ —**	**$ 209**	**$ 209**

(a) Included in the purchase price of the acquisition of the 49% ownership stake in Jimmie Creek from GE EFS was C$1.0 million representing GE EFS's portion of the Company's historical cash spend on Dokie 2.

a) Shannon

On June 30, 2015, the Company entered into a partnership agreement with Starwood for the Shannon project (note 11) and as a result derecognized the assets and liabilities associated with the project and recorded the remaining 50% interest at fair value. The Company accounts for its investment in Shannon as an equity investment, although the Company continues to manage the project.

b) Dokie 2

The Company and GE EFS hold the rights to a wind development project that is adjacent to Dokie 1 ("Dokie 2"), 51% and 49% respectively.

As at December 31, 2014, the Company performed an impairment assessment of the project and wrote off the $16.8 million carrying value of the project. The Company may continue to collect data and maintain permits, and may further develop the project in the future when market outlook improves.

c) Other

Other wind projects consists of projects located on the coast of British Columbia and in the USA. During the year, the Company made payments for permit maintenance, land leases and engaged further development studies.

d) Impairment test

The Company reviews the carrying values of wind development projects on an annual basis. No impairment was noted in 2015. During the year ended December 31, 2014, the Company wrote down

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

21) WIND DEVELOPMENT COSTS (Continued)

$16.8 million in development costs related to Dokie 2 which primarily consisted of non-cash purchase price adjustments.

22) GOODWILL

The changes in the carrying value of goodwill are as follows:

Balance, January 1, 2014	$	15,020
Write-off goodwill allocated to development projects		(2,018)
Goodwill allocated to Jimmie Creek (note 10)		(789)
Foreign exchange impact		(1,301)
Balance, December 31, 2014	$	10,912
Foreign exchange impact		(214)
Balance, December 31, 2015	**$**	**10,698**

Goodwill arose from the acquisition of HS Orka on August 17, 2010 and Plutonic Power Corporation on May 13, 2011. Goodwill is allocated to CGUs at a level no greater than the operating segment level: geothermal, wind and hydro. The recoverable amount of goodwill is determined based on an assessment of the value in use of the applicable CGU. The value in use estimate is based on a discounted cash flow model.

As part of this process, assumptions are made in relation to forecast energy output and prices, aluminum prices and foreign exchange rates. Forecast energy is based on geothermal, hydrology and wind data collected or actually generated by existing assets. Price forecasts for energy are determined using prices from current power purchase agreements and prices the Company expects to obtain under future power purchase arrangements. Aluminum prices are determined using forward LME prices through ten years and estimated thereafter. Foreign exchange is determined using forward price curves. Given the inherent uncertainty regarding longer term aluminum prices, energy prices and foreign exchange rates, management considers various possible scenarios and assigns probabilities to the likelihood of occurrence of each of these. The estimated cash flows are discounted using an after-tax rate of 8.1%. The net present value of the future expected cash flows is compared to the carrying value of the Company's investment in these assets, including goodwill, at year end, as a result of this there was no impairment of goodwill in 2015.

In 2014, the goodwill allocated to Dokie 2 was impaired, resulting in a write-off of $2.0 million (note 21). Additionally, the goodwill allocated to the Jimmie Creek construction project was derecognized as a result of the Company contributing the project to Jimmie Creek LP. The Company now accounts for its investment in Jimmie Creek as an equity investment (note 10).

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

23) OTHER LIABILITIES

HS Orka has been awarded three grants related to a deep drilling program, and plans to commence drilling a 4-5 km deep drill hole into a high-temperature hydrothermal system in order to reach temperatures in excess of 400°C. In 2015, $10.7 million was received related to these grants and is included in other liabilities. The Company's share of these grants is $5.0 million and the remaining $5.7 million is to be distributed to HS Orka's partners in the deep drilling project (note 6).

In 2014, the other liabilities balance consisted of a contingent liability related to the acquisition of Shannon. When the Company entered into a partnership with Starwood in 2015, the assets and liabilities of Shannon were deconsolidated (note 11).

24) LONG-TERM DEBT

The Company's consolidated long-term debt is as follows:

	December 31, 2015	December 31, 2014
Holding company bonds (Sweden)	**$ 117,977**	$ 120,769
Holding company loan facility (North America)	**62,377**	74,129
HS Orka loans	**75,185**	95,232
	255,539	290,130
Less current portion:		
Holding company bonds (Sweden)	**117,977**	—
HS Orka loans	**17,409**	17,752
	135,386	17,752
Long-term portion	**$ 120,153**	$ 272,378

a) Holding company bonds (Sweden)

The movement in bond values from January 1, 2014 to December 31, 2015 were as follows:

Balance, January 1, 2014	$ 124,123
Change in fair value	2,601
Foreign exchange loss	(5,955)
Balance, December 31, 2014	120,769
Change in fair value	(1,655)
Foreign exchange loss	(1,137)
Balance, December 31, 2015	**$ 117,977**

The assumptions used in determining the fair values of the bonds at December 31, 2015 and 2014 are as follows:

	December 31, 2015	**December 31, 2014**
Discount rates	8.36% - 10.66%	7.63% - 9.41%
Aluminum prices ($ per tonne)	$1,511 - $1,750	$1,774 - $1,906

There has been no significant change in the fair value of the bonds due to credit risk changes. The bonds bear interest at 1.5% and 3.5% per annum, are payable on July 18, 2016 and December 14,

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

24) LONG-TERM DEBT (Continued)

2016 and the principal amounts determined are 50% linked to aluminum prices at the settlement date subject to a cap and floor. The cap is $3,250/tonne and the floor is $1,500/tonne for the ISK denominated bond and a $1,750/tonne floor for the USD denominated bonds.

The Company currently plans to retire the holding company bonds (Sweden) through refinancings in 2016, for which the Company is currently in negotiations. The ISK denominated bond and the three US dollar bonds are non-recourse to the Company and are secured by a portion of the Company's HS Orka shares. Should the Company be unable or elect not to refinance the ISK denominated bond, the Company would own 53.9% of HS Orka and would continue to consolidate their results. If the Company lost the collateral supporting both bonds, the Company's share of HS Orka would be reduced to 21.8%, resulting in loss of control and the Company would no longer consolidate the HS Orka results. Management does not consider this to be a likely outcome.

	ISK denominated bond	US dollar bonds
Balance at December 31, 2015	$ 48,642	$ 69,335
Maturity	July 16, 2016	December 14, 2016
Interest rate	1.5%	3.5%
Number of shares of HS Orka pledged as security	996,821,339	2,515,640,459
% of outstanding HS Orka shares pledged as security	12.7%	32.1%

b) Holding company loan facility (North America)

In 2014, the Company closed a holding company loan facility with affiliates of AMP Capital Investors Limited. Proceeds from the loan facility were received in two tranches: tranche A totaling C$67.3 million was funded on August 15, 2014, tranche B totaling C$22.5 million was funded on December 19, 2014. The loan facility will mature on February 5, 2023, and has no scheduled payments of principal prior to maturity. The interest rate is CDOR plus 6.5% with interest payments made quarterly. The Company entered into two interest rate swaps resulting in all in interest rates of 8.7% - 8.8% (note 26). The loan facility is secured by the future cash flows from the Company's investments in Toba Montrose GP, Dokie GP and Jimmie Creek LP. The loan is recorded at amortized cost net of transaction fees (C$3.4 million). The change in the value of the loan facility is primarily due to foreign exchange.

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

24) LONG-TERM DEBT (Continued)

c) HS Orka loans

The HS Orka loans were comprised of the following at December 31, 2015:

Currency	Weighted Average Interest Rate	Year of Maturity		Balance
U.S. Dollar (USD)	2.1%	2019 - 2023	$	14,728
European Euro (EUR)	2.6%	2019 - 2021		11,656
Swedish Krona (SEK)	2.3%	2021		3,200
Swiss Franc (CHF)	1.8%	2021 - 2022		20,794
Japanese Yen (JPY)	1.3%	2021 - 2023		6,236
British Pound (GBP)	0.9%	2021		1,931
Canadian Dollar (CAD)	1.2%	2021 - 2023		4,993
Icelandic Krona (ISK)	4.6%	2016 - 2031		11,647
			$	**75,185**

The annual repayments of the loans are as follows:

2016	$	17,409
2017		14,890
2018		12,546
2019		12,546
2020		8,350
Thereafter		9,444
	$	**75,185**

The obligations of HS Orka are non-recourse to the Company other than the Company's historic investment, which may not be recovered in the event of default. The Company's power plants at Reykjanes and Svartsengi are pledged as collateral under the HS Orka loans. The movement in the value of the HS Orka loans is due to repayments of $17.6 million in 2015 and foreign exchange.

As at December 31, 2015, the Company was in compliance with all debt covenants.

25) PENSION FUND OBLIGATIONS

The Company records a pension fund obligation from HS Orka's defined benefit plan. Certain employees of HS Orka perform services for a third party, HS Veitur, and the two companies share the funding of HS Orka's pension plans. HS Orka has recognized HS Veitur's share of the pension obligation and a corresponding long-term receivable from HS Veitur ($3.9 million at December 31, 2015; and $3.1 million at December 31, 2014). Actuarial gains and losses relating to HS Veitur's share of the pension liability are recognized in profit and loss as they are reimbursable by HS Veitur.

According to actuarial assessments, the Company's accrued pension obligation amounted to $15.8 million at December 31, 2015 (December 31, 2014 – $14.9 million), discounted at a rate of 2%, taking into account the share in the net assets of the pension fund.

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

25) PENSION FUND OBLIGATIONS (Continued)

The portion of the increase in the pension fund related to HS Veitur's share is $1.1 million during the year.

Pension fund obligations January 1, 2014	$	15,571
Contributions during the year		(642)
Current service cost		167
Interest expense		282
Actuarial changes - HS Orka share charged to OCI		454
Actuarial changes - HS Veitur share charged to statement of operations		578
Foreign exchange loss		(1,554)
Pension fund obligations December 31, 2014	$	14,856
Contributions during the year		(904)
Current service cost		71
Interest expense		290
Actuarial changes - HS Orka share charged to OCI		567
Actuarial changes - HS Veitur share charged to statement of operations		1,131
Foreign exchange loss		(232)
Pension fund obligations December 31, 2015	**$**	**15,779**

The pension obligations are as follows:		
The pension fund for State employees	$	7,969
The pension fund for Municipality of Hafnarfjörður employees		4,643
The pension fund for Municipality of Vestman Islands employees		3,167
Pension fund obligations December 31, 2015	**$**	**15,779**

26) INTEREST RATE SWAPS

The Company entered into two interest rate swaps related to the holding company loan facility (North America) on December 2, 2014 (Swap A) and December 12, 2014 (Swap B). The Company designated the interest rate swaps as accounting cash flow hedges of the interest rate exposure on the holding company loan facility (North America) for the periods of December 2, 2014 to February 5, 2023 and December 12, 2014 to February 5, 2023 respectively. The effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in equity. The amount recognized in accumulated other comprehensive income is removed and included in profit or loss in the same period as the hedged item affects profit or loss under the same line item in the statement of operations. The ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

The fair value of the interest rate swaps are calculated by an independent third party based on the market conditions at the time of reporting.

The fair value of the interest rate swaps have been reflected in the financial statements as liabilities at December 31, 2015 as follows:

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

26) INTEREST RATE SWAPS (Continued)

	Swap A	Swap B	Total
Interest rate swap	$ 2,121	$ 1,018	$ 3,139
Less: current portion of interest rate swap	**554**	**293**	**847**
Long-term portion of interest rate swap contracts	**$ 1,567**	**$ 725**	**$ 2,292**

As at December 31, 2014:

	Swap A	Swap B	Total
Interest rate swap	$ 796	$ 153	$ 949
Less: current portion of interest rate swap	**392**	**185**	**577**
Long-term portion of interest rate swap contracts	**$ 404**	**$ (32)**	**$ 372**

The Company is subject to enforceable master netting arrangements in the form of ISDA agreements with derivative counterparties.

27) BELOW MARKET CONTRACTS

Following the acquisition of HS Orka (in 2010) and Soda Lake (in 2008), existing long-term power sales contracts in place at the time of acquisition of control were recognized at fair value by comparing the contracted prices with the prevailing market prices. The contracted prices were lower than the prevailing market prices. As a result, these contracts were considered to be unfavorable and a liability was recognized at fair value as part of the purchase price allocation for HS Orka and Soda Lake.

The Company amortizes the fair value of unfavorable sales contracts over the remaining contract term and records the amount in revenue.

A continuity of the Company's below market contracts is as follows:

Balance, January 1, 2014	$	23,024
Amortization to revenue		(2,038)
Reclassification as held for sale [(a)]		(1,101)
Foreign exchange loss		(1,962)
Balance, December 31, 2014	$	17,923
Amortization to revenue		(1,657)
Foreign exchange		(358)
Balance, December 31, 2015	**$**	**15,908**

(a) The Soda Lake below market contract value at December 31, 2014 was reclassified as held for sale. Refer to note 28.

At December 31, 2015, HS Orka has two below market contracts remaining (expiring in 2019 and 2026).

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

28) SALE OF SODA LAKE FACILITY

On January 30, 2015, the Company sold its 100% interest in the 15 MW Soda Lake geothermal facility as well as certain geothermal development assets (the "Soda Lake Facility") to an affiliate of Cyrq Energy Inc. for proceeds of $8.5 million plus additional compensation if certain performance related or earn-out provisions are met over periods of up to five years.

As a result of the sale, the Company recorded the following gain on sale:

Cash proceeds	$	8,500
Working capital adjustment		348
Value of earn-out provisions		1,418
Transaction costs		(586)
Net proceeds from sale	**$**	**9,680**
Carrying value of Soda Lake Facility net assets		**9,635**
Gain on sale	**$**	**45**

During 2015, the Company recorded a write-down of $0.4 million related to the Soda Lake earn-out payments in 2015 as a result of expiration of the PPA bonus.

The Soda Lake facility assets and liabilities were classified as held for sale at December 31, 2014. The following table summarizes the carrying value, write-down and ending balance of the Soda Lake Facility assets and liabilities at December 31, 2014:

	Carrying value	Write-down	Ending balance
Cash	$ 68	$ —	$ 68
Accounts receivable	427	—	427
Prepaid	277	—	277
Plant and equipment (note 17)	11,462	(1,446)	10,016
Geothermal development costs (note 19)	4,674	(3,896)	778
Total assets held for sale	16,908	(5,342)	11,566
Accounts payable	389	—	389
Below market contracts (note 27)	1,101	—	1,101
Deferred revenue	438	—	438
Total liabilities held for sale	1,928	—	1,928
Net assets directly associated with assets held for sale	$ 14,980	$ (5,342)	$ 9,638

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

29) SHARE CAPITAL

a) Capital stock

At December 31, 2015, the Company had unlimited authorized common shares without par value and 468,652,409 common shares issued and outstanding (December 31, 2014 - 467,263,361).

During the year ended December 31, 2015, the Company recorded an issuance of 1,389,048 common shares with a value of $0.3 million (2014 - 563,917 shares with a fair value of $0.2 million). This includes the 1,323,620 shares that were awarded to Company employees in 2014 (with a fair value of $0.3 million), which were ratified by the Company's shareholders and approved by the TSX during the year.

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 with a cap of 25,000,000. Options granted under the plan vest over time at the discretion of the Board of Directors. Options granted to date have an average vesting period of two years and a life of five years.

Exercise prices on options granted under the plan are determined by reference to the market value on the date of the grant.

The changes in stock options issued are as follows:

	Number of options	Weighted average exercise price (C$/option)
Outstanding, January 1, 2014	11,787,902	$ 0.77
Granted	4,560,955	0.29
Forfeited and expired	(3,795,808)	1.00
Outstanding, December 31, 2014	12,553,049	0.52
Granted	4,322,610	0.51
Forfeited and expired	(1,648,580)	1.28
Exercised	(65,428)	0.30
Outstanding, December 31, 2015	15,161,651	0.45
Exercisable, December 31, 2015	10,972,485	$ 0.44

As at December 31, 2015, incentive stock options represented 3.2% (December 31, 2014 - 2.7%) of issued and outstanding common capital. The aggregate intrinsic value of vested share options (the market value of the underlying share less the exercise value) at December 31, 2015 was $0.5 million (December 31, 2014 - $nil).

During the year, 4,322,610 options were granted at a weighted average fair value of C$0.22 per option.

The share-based compensation for the years ended December 31, 2015 and 2014 has been recognized in the consolidated financial statements as follows:

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

29) SHARE CAPITAL (Continued)

	December 31, 2015	December 31, 2014
Balance sheets		
Hydro and wind development costs	$ —	$ 23
Statements of operations		
Cost of sales	**1**	28
General and administrative	**661**	551
General development expenses	**—**	(5)
	662	574
Total share-based compensation	**$ 662**	$ 597

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

	December 31, 2015	December 31, 2014
Expected dividend yield (%)	**Nil**	Nil
Average risk-free interest rate (%)	**0.73% - 0.94%**	1.55%
Expected life (years)	**5.0**	5.0
Expected volatility (%)	**50%**	55%
Expected rate of forfeiture (%)	**5%**	5%

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

30) NON-CONTROLLING INTEREST

The following table summarizes the material non-controlling financial information for HS Orka before any intra-group eliminations:

	December 31, 2015	December 31, 2014
Non-current assets	**$ 391,147**	$ 378,232
Current assets	**42,343**	46,724
Non-current liabilities	**(170,429)**	(163,949)
Current liabilities	**(46,025)**	(34,582)
Net assets	**217,036**	226,425
Non-controlling interest %	**33.4%**	33.4%
Proportionate share of HS Orka net assets	**$ 72,490**	$ 75,626
Proportionate share of Vesturverk net assets	**836**	—
Total non-controlling interest	**$ 73,326**	$ 75,626
Revenue	**$ 57,386**	$ 65,902
Income (loss)	**(1,763)**	4,688
OCI (loss)	**(5,232)**	(21,025)
Total comprehensive income (loss)	**(6,995)**	(16,337)
Income (loss) allocated to non-controlling interest	**(589)**	1,566
OCI (loss) allocated to non-controlling interest	**$ (1,747)**	$ (7,022)
Cash flow generated by operating activities	**$ 24,397**	$ 21,222
Cash flow used in investment activities	**(22,408)**	(6,821)
Cash flow used in financing activities	**(20,048)**	(20,948)
Effect of foreign exchange on cash	**(550)**	(2,245)
Net decrease in cash and cash equivalents	**$ (18,609)**	$ (8,792)

31) RELATED PARTY TRANSACTIONS

a) Revolving credit agreement

The Company holds a revolving credit facility with the Company's Chairman. At December 31, 2015, the borrowing amount available under the facility was C$20.0 million with a maturity date of March 31, 2016. Subsequent to year end, the maturity date was extended to March 31, 2017. The credit facility makes funds available on a revolving basis at an interest rate of 8% per annum, compounded and payable monthly. In addition, a standby fee in the amount of 0.75% of the credit facility, and a drawdown fee in the amount of 1.5% of amounts advanced, are payable in cash.

At December 31, 2015, there were no amounts outstanding under the credit agreement (December 31, 2014: $nil). During the year the Company borrowed and repaid C$2.7 million and paid interest, standby and drawdown fees of C$0.2 million (C$1.8 million for the year ended December 31, 2014).

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

31) RELATED PARTY TRANSACTIONS (Continued)

b) Developer fee

On June 30, 2015, the Company received a $1.5 million developer's fee (note 11) and a $0.8 million construction management fee from Shannon Wind, LLC (a subsidiary of Holdings).

c) Compensation of directors and other key management personnel

The remuneration of the Company’s directors and other key management personnel during the years ended December 31, 2015 and 2014 was as follows:

	December 31, 2015	December 31, 2014
Short-term employee benefits [a]	**$ 1,501**	$ 1,882
Termination benefits	**—**	226
Share-based compensation	**343**	362
Total	**$ 1,844**	$ 2,470

(a) Short-term employee benefits include salaries, bonuses payable within twelve months of the balance sheet date and other annual employee benefits.

32) FINANCIAL INSTRUMENTS

Fair Value

The carrying value of the Company's cash and cash equivalents, restricted cash, trade and other receivables, accounts payable and accrued liabilities, and other liabilities approximate fair value due to the relative short-term maturity of these financial instruments. The carrying value of the bonds receivable and holding company loan facility (North America), disregarding the effect of financing fees, approximates fair value as a result of the variable interest rates being charged and no significant change in credit risk (both are classified as Level 2 in the fair value hierarchy discussed below), and the carrying value of the HS Orka corporate loans approximates the fair value. Fair value is determined by discounting future interest and principal payments at the market rate of interest.

Fair value hierarchy

Financial instruments measured at fair value are categorized within 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).

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

32) FINANCIAL INSTRUMENTS (Continued)

The Company's financial instruments carried at fair value are assessed as follows:

As at December 31, 2015

	Level 1	Level 2	Level 3	Total
Assets:				
Short-term investments	$ 7,670	$ —	$ —	$ 7,670
Bonds receivable	—	2,087	—	2,087
Long-term receivable and other assets	—	—	1,282	1,282
	$ 7,670	$ 2,087	$ 1,282	$ 11,039
Liabilities:				
Embedded derivatives	$ —	$ 3,192	$ 62,518	$ 65,710
Interest rate swaps	—	3,139	—	3,139
Holding company bonds (Sweden)	—	117,977	—	117,977
	$ —	$ 124,308	$ 62,518	$ 186,826

As at December 31, 2014

	Level 1	Level 2	Level 3	Total
Assets:				
Short-term investments	$ 4,037	$ 284	$ —	$ 4,321
Bonds receivable	—	2,609	—	2,609
Long-term receivable and other assets	—	—	593	593
	$ 4,037	$ 2,893	$ 593	$ 7,523
Liabilities:				
Embedded derivatives	$ —	$ 2,391	$ 41,673	$ 44,064
Currency and interest rate swaps	—	949	—	949
Interest rate swaps	—	—	5,778	5,778
Holding company bonds (Sweden)	—	120,769	—	120,769
	$ —	$ 124,109	$ 47,451	$ 171,560

The amounts included in Level 2 are for the interest rate swaps, and bonds receivable and embedded derivatives held at HS Orka, and the holding company bonds held by Magma Energy Sweden A.B. The fair value of the bonds receivable is determined using an income approach by discounting future interest and principal repayments using an interest rate of 5% plus indexation to the Icelandic Consumer Price Index. The fair value of the interest rate swaps is measured using observable future market interest rates (0.73% to 2.51%). The fair value of the embedded derivatives and holding company bonds payable (Sweden) is determined using observable market interest rates (0.86% to 5.84%) and the London Metals Exchange forward market price of aluminum. Embedded derivatives relating to a contract expiring in 2019 are included in Level 2.

The assets recorded as Level 3 in the fair value hierarchy, long-term receivables and other assets, represent $0.3 million of potential earn-out payment related to the partial sale of the Company's interest

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32) FINANCIAL INSTRUMENTS (Continued)

in Dokie GP and $1.0 million of potential earn-out payments related to the sale of Soda Lake. The Dokie GP earn-out payment is based on achieving the generation target in 2016. The fair value is based on a 50% probability of the generation target, discounted at a rate of 6%. The Company reached the generation target in 2015 and received the related payment in early 2016. The Soda Lake earn-out payments are based on probabilities of achieving generation, pricing and development targets over the next one to four years discounted at a rate of 8%. The Company recorded a write-down of $0.4 million related to the Soda Lake earn-out payments in 2015 as a result of the PPA bonus criteria not being met.

The liability amount included in Level 3 is for embedded derivatives held at HS Orka that relate to a contract that expires in 2026. The embedded derivatives are classified as Level 3 as the observable forward market for aluminum only extends to ten years. Level 3 embedded derivatives are sensitive to changes in forward aluminum prices and such changes in forward aluminum prices may result in a significantly higher or lower fair value measurement. At December 31, 2015 projected forward aluminum prices for the period January 1, 2026 to May 28, 2026 are estimated to be within a range of $2,041 to $2,058 per tonne compared to a range of $2,329 to $2,399 at December 31, 2014.

A reconciliation of the Level 3 embedded derivative liability amount is as follows:

	January 1, 2015	Foreign exchange and unrealized loss	Settlement	December 31, 2015
Liabilities:				
Embedded derivatives	$ (41,673)	$ (25,092)	$ 4,247	$ (62,518)

	January 1, 2014	Foreign exchange and unrealized loss	Settlement	December 31, 2014
Liabilities:				
Embedded derivatives	$ (30,388)	$ (15,428)	$ 4,143	$ (41,673)

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 embedded derivatives would be recognized in the statement of operations.

Gains and losses on the bonds receivable, embedded derivatives and holding company bonds were recognized in the statement of operations. There have been no transfers between levels during the year.

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 41% (2014 - 53%) of the Company's revenue is attributable to sales transactions with two customers. The Company has set a credit policy where all new customers are evaluated with respect to payment history and other factors and credit limits are set. Customers that are behind in payments are prohibited to make further transactions with the Company until they settle their debt or the Company's

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

32) FINANCIAL INSTRUMENTS (Continued)

collection department approves further transactions based on an agreement. The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The Company's exposure to credit risk and management of this risk has not changed from the previous year with the exception of the bond receivable and long-term receivable at HS Orka. There have been indications of an uncertain financial position of the bond holder (the municipality of Reykjanesbær) and thus there is some uncertainty about the recoverability of the bond. Separately HS Veitur has disputed the amount of the long-term receivable although the Company believes the agreement in place to still be valid.

The Company's maximum exposure to credit risk is the carrying amount of financial assets as presented below:

	December 31, 2015	December 31, 2014
Cash and cash equivalents	**$ 10,345**	$ 63,216
Restricted cash	**10,766**	9,672
Short-term investments	**6,974**	3,141
Trade and other receivables	**12,354**	11,414
Long-term receivables and other assets	**4,236**	14,540
Bonds receivable	**2,087**	2,609
Total	**$ 46,762**	$ 104,592

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

	December 31, 2015	December 31, 2014
NV Energy	**$ —**	$ 427
Iceland industrial and power companies	**3,336**	4,313
Iceland residential customers	**6,512**	4,977
Receivables from Toba Montrose GP, Dokie GP, Jimmie Creek LP and Shannon Wind, LLC	**743**	883
Other receivables	**1,763**	814
Total	**$ 12,354**	$ 11,414

At December 31, 2015, $0.9 million (2014 - $0.7 million) of trade and other receivables were more than 90 days overdue and a total write-off of impaired receivables of $0.1 million was recorded during the year.

There are no amounts are outstanding as at December 31, 2015 on the bond receivable at HS Orka, however, there have been indications of an uncertain financial position of the bond holder and thus there is some uncertainty about the recoverability of the bond.

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

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32) FINANCIAL INSTRUMENTS (Continued)

financial resources available to meet its obligations. The Company forecasts cash flows for a period of at least 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 December 31, 2015, the Company's current liabilities consisted of trade and other payables, current portions of debt and other financial instruments, and grants received at HS Orka during the year. Current liabilities have increased $122.0 million from December 31, 2014 primarily due to the classification of the holding company bonds (Sweden) of $118.0 million as current. These bonds are non-recourse to the Company and the Company intends to retire these bonds through refinancings in 2016, which are currently in negotiation. The Company has successfully executed several financings over the past two years, however there are no guarantees that the bonds will be successfully refinanced. As disclosed in note 24, the holding company bonds are secured by 44.8% of HS Orka shares.

The Company believes that HS Orka, Toba Montrose GP, Dokie GP and Jimmie Creek LP have the ability to sustain themselves and pay their long-term interest and debt obligations as they become due. This debt is non recourse to the Company. The Company has plans to refinance the bond liabilities of Magma Energy Sweden A.B., assumed in conjunction with the acquisition of HS Orka that expire in 2016. Should the Company be unable or elect not to refinance the ISK denominated bond, and returns the shares held as collateral, the Company would own 53.9% of HS Orka and would continue to consolidate their results. If the Company in unsuccessful in refinancing both bonds, and returns all shares held as collateral, the Company's share of HS Orka will be reduced to 21.8%, resulting in loss of control and the Company would no longer consolidate the HS Orka results. Management does not consider this to be a likely outcome.

The Company believes the cash flows from its investments in Toba Montrose GP, Dokie GP, and future Jimmie Creek LP cash flows will be sufficient to pay its interest on the holding company loan facility (North America) over the term of the loan.

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

December 31, 2015	Carrying amount	Contractual cash flows	Less than one year[(a)]	1-2 years	2-5 years	After 5 years
Accounts payable and accrued liabilities	$ 13,660	$ 13,660	$ 13,660	$ —	$ —	$ —
Other liabilities	10,689	10,689	10,689	—	—	—
Long-term debt	255,539	302,755	142,604	20,790	50,593	88,768
Embedded derivatives	65,710	65,710	8,362	8,170	21,269	27,909
Interest rate swaps	3,139	3,238	851	790	1,503	94
Total	**$ 348,737**	**$ 396,052**	**$ 176,166**	**$ 29,750**	**$ 73,365**	**$ 116,771**

(a) Long-term debt due in "less than one year" includes the maturities of the holding company bonds (Sweden), which the Company is currently in the process of refinancing.

Market risk

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

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

32) FINANCIAL INSTRUMENTS (Continued)

a) Interest rate risk

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

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:

		December 31, 2015		December 31, 2014
Bonds receivable	$	**2,087**	$	2,609
Holding company bonds (Sweden)		**(117,977)**		(120,769)
Total	$	**(115,890)**	$	(118,160)

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 by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates and aluminum prices, remain constant.

	Net income/equity increase (decrease)			
December 31, 2015		**100 BPS increase**		**100 BPS decrease**
Bonds receivable	$	(29)	$	31
Holding company bonds (Sweden)		863		(877)
Total	**$**	**834**	**$**	**(846)**

Financial instruments with floating interest rate risk

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

		December 31, 2015		December 31, 2014
Cash and cash equivalents	$	**10,345**	$	63,216
Restricted cash		**10,766**		9,672
Holding company loan facility (North America)		**(62,377)**		(74,129)
HS Orka variable rate loans		**(63,538)**		(81,003)

Cash flow sensitivity analysis for floating interest rate instruments

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

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

32) FINANCIAL INSTRUMENTS (Continued)

	Net income/equity increase (decrease)	
December 31, 2015	**100 BPS increase**	**100 BPS decrease**
Cash and cash equivalents	$ 103	$ (103)
Restricted cash	108	(108)
Holding company loan facility	(648)	589
HS Orka variable rate loans	(635)	635
Total	**$ (1,072)**	**$ 1,013**

Derivative financial instruments

The following derivative financial instruments are subject to interest rate risk:

	December 31 2015	December 31 2014
Embedded derivative liabilities	**$ (65,710)**	$ (44,064)
Interest rate swaps	**(3,139)**	(949)
Total	**$ (68,849)**	$ (45,013)

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 by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates and aluminum prices, remain constant.

	Comprehensive income/equity increase (decrease)	
December 31, 2015	**100 BPS increase**	**100 BPS decrease**
Embedded derivative liabilities	$ 1,233	$ (1,326)
Interest rate swaps	3,817	(3,600)
Total	**$ 5,050**	**$ (4,926)**

b) Currency risk

The functional currency of the Company and each of its subsidiaries, except the U.S. subsidiaries and HS Orka, is the Canadian dollar, the functional currency of the U.S. subsidiaries is the U.S. dollar; and the functional currency of HS Orka is the Icelandic Krona. The carrying amounts of monetary assets and liabilities denominated in currencies other than the functional currencies 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 Company and its subsidiaries undertake transactions in the following currencies: U.S. dollar, Canadian dollar, Icelandic Krona, Swedish Krona, Swiss Franc, Euro, British Pound and Japanese Yen. The

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

32) FINANCIAL INSTRUMENTS (Continued)

Company does not currently economically hedge against foreign exchange rate risk, but may economically 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 from the functional currency 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 functional currency to the 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 on its financial assets and liabilities, based on notional amounts, was as follows:

December 31, 2015	ISK	CHF	EUR	CAD	JPY	SEK	USD	Other currencies	Total
Cash and cash equivalents	$ 4,491	$ 1	$ 32	$ 1,255	$ —	$ —	$ 4,562	$ 4	$ 10,345
Restricted cash	568	—	5,698	—	—	—	4,500	—	10,766
Short-term investments	6,974	—	—	696	—	—	—	—	7,670
Trade and other receivables	7,764	—	106	1,841	—	—	2,642	1	12,354
Long-term receivable and other assets	3,875	—	—	617	—	—	1,026	—	5,518
Bonds receivable	2,087	—	—	—	—	—	—	—	2,087
Other investments	208	—	—	—	—	—	—	—	208
Accounts payable and accrued liabilities	(10,324)	—	—	(2,952)	—	(25)	(346)	(13)	(13,660)
Other liabilities	—	—	(10,689)	—	—	—	—	—	(10,689)
Embedded derivatives	—	—	—	—	—	—	(65,710)	—	(65,710)
Long-term debt	(60,289)	(20,794)	(11,656)	(67,370)	(6,236)	(3,200)	(84,063)	(1,931)	(255,539)
Interest rate swaps	—	—	—	(3,139)	—	—	—	—	(3,139)
Net foreign exchange rate risk	**$ (44,646)**	**$ (20,793)**	**$ (16,509)**	**$ (69,052)**	**$ (6,236)**	**$ (3,225)**	**$(137,389)**	**$ (1,939)**	**$ (299,789)**

A 10% strengthening or weakening of the functional currency of the entity and its subsidiary against the following currencies at December 31, 2015 would have increased (decreased) income or loss after tax by the amounts shown below. This analysis assumes that all other variables, in particular, interest rates, remain constant.

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

32) FINANCIAL INSTRUMENTS (Continued)

	Net income increase (decrease) 10% Strengthening	10% Weakening
ISK	$ 4,943	$ (4,943)
CHF	1,779	(1,779)
EUR	969	(969)
CAD	436	(436)
USD	10,174	(10,174)
JPY	543	(543)
Other currencies	428	(428)
Total	**$ 19,272**	**$ (19,272)**

c) Commodity price risk

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

The holding company bonds (Sweden) that were issued as partial consideration for the purchase of HS Orka are also partially subject to adjustments based on the price of aluminum. Therefore, the principal amounts owed on the due date, and the annual interest payments thereon, subject to caps and floors, may fluctuate with the price of aluminum.

A 10% increase or decrease in the price of aluminum at December 31, 2015 would have respectively decreased or increased net income by $22.6 million and $19.1 million.

Toba Montrose GP and Dokie GP are not subject to significant commodity price risk as power is primarily sold at a rate specified by a PPA with BC Hydro. Shannon Group LLC will sell the majority of its output under a long-term power hedge agreement with Citigroup Energy Inc. beginning in June 2016 and until that time all power sales will be subject to merchant prices.

33) CAPITAL DISCLOSURES

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

a) minimize dilution to existing equity shareholders of the Company with the continued expansion and development of its projects until the Company can generate sufficient cash flow to finance all of its growth internally; and

b) maintain a capital structure which optimizes the cost of capital at acceptable risk levels.

The Company manages its common shares and long-term debt as capital. There are no externally imposed requirements. The Company intends to fund its planned expansion and development activities from working capital, project and holding company level financing and distributions from existing operations.

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

34) COMMITMENTS

The Company has entered into various operating lease and contractual commitments (in addition to the commitments discussed in note 17) that require minimum payments in the aggregate as follows:

2016	$	552
2017		548
2018		—
2019		—
2020		—
Thereafter		—
Total commitments	**$**	**1,100**

35) INCOME TAXES

The significant components of income tax recovery (expense) recognized in the statement of operations are as follows:

		Year ended December 31, 2015		Year ended December 31, 2014
Deferred income tax recovery (expense):				
Current year	**$**	**3,755**	$	(2,582)
Adjustment for prior years		**(8)**		(1,981)
Income tax recovery (expense)	**$**	**3,747**	$	(4,563)

Income tax recovery (expense) differs from the amount that would result from applying the Canadian federal and provincial tax rate to loss before income taxes. These differences result from the following items:

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

35) INCOME TAXES (Continued)

		Year ended December 31, 2015		Year ended December 31, 2014
Canadian statutory federal and provincial income tax rates		26.00%		26.00%
Loss before income tax	$	(21,053)	$	(30,211)
Income tax benefit computed at Canadian statutory rates		5,474		7,855
Permanent items and other		1,456		14,237
Change in deferred income tax assets not recognized		(409)		(23,497)
Change in estimates in respect of prior year		(8)		(1,981)
Foreign tax rates different from statutory rate		(2,467)		(348)
Utilized deferred tax assets or expired loss		(144)		(438)
Other		(155)		(391)
Income tax recovery (expense)	$	3,747	$	(4,563)

The applicable federal and provincial tax rate in Canada for the year ended December 31, 2015 was 26%, which reflects the current legislated tax rates.

The significant components of the Company's deferred income tax assets and liabilities as at December 31, 2015 and 2014 are as follows:

		Year ended December 31, 2015		Year ended December 31, 2014
Net deferred income tax assets				
Non-capital losses	**$**	**3,888**	$	—
Other items		**(990)**		—
		2,898		—
Net deferred income tax liabilities				
Non-capital losses		**16,370**		19,663
Embedded derivatives		**13,142**		8,813
Investment in partnerships and associates		**(24,280)**		(25,200)
Plant and equipment and energy properties		**(25,798)**		(25,712)
Other		**7,226**		6,756
		(13,340)		(15,680)
Net deferred tax liability	**$**	**(10,442)**	$	(15,680)

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

35) INCOME TAXES (Continued)

A summary of the movement of deferred tax assets (liabilities) recognized in profit and loss is as follows:

	Opening balance	Recognized in net income	Recognized in equity	Foreign exchange translation	Closing balance
Non-capital losses	$ 19,663	$ 2,465	$ —	$ (1,870)	$ 20,258
Embedded derivatives	8,813	5,167	—	(838)	13,142
Investment in partnerships and associates	(25,200)	(1,476)	—	2,397	(24,279)
Plant and equipment and energy properties	(25,712)	(2,532)	—	2,445	(25,799)
Other items	6,756	123	—	(643)	6,236
Deferred tax asset (liability)	$ (15,680)	$ 3,747	$ —	$ 1,491	$ (10,442)

Of the total deferred income tax assets recognized as at December 31, 2015, $1.3 million is expected to be recovered within the next 12 months (December 31, 2014 - $nil) and $40.1 million is expected to be recovered after more than 12 months (December 31, 2014 - $38.9 million).

Of the total deferred income tax liabilities recognized as at December 31, 2015, all of the $51.8 million (December 31, 2014 - $54.6 million) is expected to be discharged after more than 12 months.

Deferred tax assets are recognized to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability to realize the tax benefits is dependent upon numerous factors, including the future profitability of operations in the jurisdictions in which the tax benefits arose.

The Company did not recognize deferred tax assets for the following deductible temporary differences:

	December 31, 2015	December 31, 2014
Capital losses	**$ 52,024**	$ 31,055
Non-capital losses	**189,329**	169,862
Other deductible temporary differences	**40,771**	62,706
	$ 282,124	$ 263,623

As at December 31, 2015, the Company had non-capital losses for income tax purposes of approximately $263.6 million (December 31, 2014 - $247.8 million), expiring in various years to 2035 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, and Peru. The tax losses expire as follows:

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

35) INCOME TAXES (Continued)

	Canada	US	Chile	Sweden	Iceland	Italy	Peru	Total
2016	$ —	$ —	$ —	$ —	$ —	$ —	$ 143	$ 143
2017	—	—	—	—	—	—	257	257
2018	—	—	—	—	3,022	—	351	3,373
2019	—	—	—	—	1,416	—	345	1,761
2020	—	—	—	—	5,159	—	—	5,159
2021	—	—	—	—	3,316	—	—	3,316
2022	—	—	—	—	5,096	—	—	5,096
2023	—	—	—	—	122	—	—	122
2024	—	—	—	—	—	—	—	—
2025	6,948	—	—	—	—	—	—	6,948
2026	1,898	—	—	—	—	—	—	1,898
2027	12,509	—	—	—	—	—	—	12,509
2028	15,953	2,343	—	—	—	—	—	18,296
2029	22,210	7,208	—	—	—	—	—	29,418
2030	15,794	4,595	—	—	—	—	—	20,389
2031	7,054	4,511	—	—	—	—	—	11,565
2032	3,643	7,063	—	—	—	—		10,706
2033	34,977	2,261	—	—	—	—	—	37,238
2034	12,351	—	—	—	—	—	—	12,351
2035	9,126	26,767	—	—	—	—	—	35,893
Without expiry	—	—	4,173	42,119	—	843	—	47,135
Total	$142,463	$ 54,748	$ 4,173	$ 42,119	$ 18,131	$ 843	$ 1,096	$263,573

The Company also has capital losses of $52.0 million (2014 - $31.1 million), which do not expire.

36) SEGMENTED DISCLOSURES

The Company has four operating segments:

a) The development of hydro, wind, solar and geothermal properties;

b) Geothermal operations;

c) Hydro operations; and

d) Wind operations.

Consolidated revenues during the years ended December 31, 2015 and 2014 were generated from HS Orka (including the Svartsengi and Reykjanes plants) in Iceland and the Soda Lake plant in the USA (until it was sold on January 30, 2015). Revenues and results from hydro operations (Toba Montrose GP), wind operations (Dokie GP and Shannon Group LLC), Blue Lagoon, Jimmie Creek LP and the geothermal investment properties are included in share of results of equity investments.

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

36) SEGMENTED DISCLOSURES (Continued)

	December 31, 2015				
			Assets		
	Construction and development	Geothermal	Hydro	Wind	Total
CANADA					
Current assets	$ 5,516	$ —	$ —	$ —	$ 5,516
Plant and equipment	22	—	—	—	22
Equity investments	34,034	—	21,961	8,020	64,015
Hydro development costs	580	—	—	—	580
Wind development costs	117	—	—	—	117
Other assets	4,099	—	—	—	4,099
	44,368	—	21,961	8,020	74,349
USA					
Current assets	994	—	—	—	994
Equity investments	—	—	—	62,392	62,392
Wind development costs	92	—	—	—	92
Other assets	—	1,026	—	—	1,026
	1,086	1,026	—	62,392	64,504
CHILE					
Current assets	1	—	—	—	1
Equity investments	18,579	—	—	—	18,579
	18,580	—	—	—	18,580
ITALY					
Equity investments	803	—	—	—	803
PERU					
Equity investments	2,007	—	—	—	2,007
ICELAND					
Current assets	720	38,444	—	—	39,164
Plant and equipment	—	288,795	—	—	288,795
Geothermal development costs	55,093	—	—	—	55,093
Equity investments	—	26,661	—	—	26,661
Hydro development costs	2,347	—	—	—	2,347
Other assets	—	20,711	—	—	20,711
	58,160	374,611	—	—	432,771
Total Assets	**$ 125,004**	**$ 375,637**	**$ 21,961**	**$ 70,412**	**$ 593,014**

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

36) SEGMENTED DISCLOSURES (Continued)

	December 31, 2014				
			Assets		
	Construction and development	Geothermal	Hydro	Wind	Total
CANADA					
Current assets	$ 45,731	$ —	$ —	$ —	$ 45,731
Plant and equipment	30	—	—	—	30
Equity investments	40,809	—	26,977	8,269	76,055
Hydro development costs	112	—	—	—	112
Wind development costs	659	—	—	—	659
Other assets	2,003	—	—	—	2,003
	89,344	—	26,977	8,269	124,590
USA					
Current assets	554	—	—	—	554
Plant and equipment	15	—	—	—	15
Wind development costs	15,439	—	—	—	15,439
Other assets	10,412	—	—	—	10,412
Assets held for sale	—	11,566	—	—	11,566
	26,420	11,566	—	—	37,986
CHILE					
Current assets	5	—	—	—	5
Equity investments	22,525	—	—	—	22,525
Other assets	2	—	—	—	2
	22,532	—	—	—	22,532
ITALY					
Equity investments	995	—	—	—	995
PERU					
Equity investments	2,395	—	—	—	2,395
ICELAND					
Current assets	94	46,724	—	—	46,818
Plant and equipment	—	286,468	—	—	286,468
Geothermal development costs	56,961	—	—	—	56,961
Equity investments	—	23,421	—	—	23,421
Other assets	—	21,046	—	—	21,046
	57,055	377,659	—	—	434,714
Total Assets	**$ 198,741**	**$ 389,225**	**$ 26,977**	**$ 8,269**	**$ 623,212**

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

36) SEGMENTED DISCLOSURES (Continued)

	Year ended December 31, 2015				
	Construction and development	Operating results			
		Geothermal	Hydro	Wind	Total
Revenues	$ —	$ 57,835	$ —	$ —	$ 57,835
Cost of sales	—	(41,704)	—	—	(41,704)
Gross profit	—	16,131	—	—	16,131
Other income (expenses)					
General and administrative	(5,426)	(4,469)	—	—	(9,895)
General development expenses	(1,417)	—	—	—	(1,417)
Share of results of equity investments	(597)	7,099	5,931	9,692	22,125
Finance income	167	1,641	—	—	1,808
Finance costs	(6,331)	(6,312)	—	—	(12,643)
Change in the fair value of bonds payable	—	1,655	—	—	1,655
Change in the fair value of derivatives	—	(22,285)	—	—	(22,285)
Foreign exchange gain (loss)	(20,141)	1,682	—	—	(18,459)
Other income	1,927	—	—	—	1,927
	(31,818)	(20,989)	5,931	9,692	(37,184)
Income (loss) before income tax	(31,818)	(4,858)	5,931	9,692	(21,053)
Income tax recovery	44	3,703	—	—	3,747
Income (loss) for the year	**$ (31,774)**	**$ (1,155)**	**$ 5,931**	**$ 9,692**	**$ (17,306)**

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

36) SEGMENTED DISCLOSURES (Continued)

	Year ended December 31, 2014				
	Construction and development	Operating results Geothermal	Hydro	Wind	Total
Revenues	$ —	$ 70,952	$ —	$ —	$ 70,952
Cost of sales	—	(53,860)	—	—	$ (53,860)
Gross profit	—	17,092	—	—	17,092
Other income (expenses)					
General and administrative	(6,504)	(3,861)	—	—	(10,365)
General development expenses	(315)	—	—	—	(315)
Share of results of equity investments	(376)	4,742	7,298	536	12,200
Finance income	196	2,542	—	—	2,738
Finance costs	(1,286)	(7,316)	—	—	(8,602)
Change in the fair value of bonds payable	—	(2,601)	—	—	(2,601)
Change in the fair value of derivatives	—	(11,846)	—	—	(11,846)
Foreign exchange gain (loss)	(4,748)	182	—	—	(4,566)
Write-down of development costs and plant and equipment	(20,993)	(1,446)	—	—	(22,439)
Write-off of goodwill	(2,018)	—	—	—	(2,018)
Other income	511	—	—	—	511
	(35,533)	(19,604)	7,298	536	(47,303)
Income (loss) before income tax	(35,533)	(2,512)	7,298	536	(30,211)
Income tax expense	—	(4,563)	—	—	(4,563)
Income (loss) for the year	**$ (35,533)**	**$ (7,075)**	**$ 7,298**	**$ 536**	**$ (34,774)**

37) COST OF SALES

The following is a breakdown of the Company's cost of sales by nature of expense:

	Year ended December 31, 2015	Year ended December 31, 2014
Employee benefit expense	**$ 3,884**	$ 11,243
Depreciation, amortization and accretion	**11,039**	13,092
Cost of production	**26,781**	29,525
	$ 41,704	$ 53,860

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

38) GENERAL AND ADMINISTRATIVE

The following is a breakdown of the Company's general and administrative expenses by nature of expense:

	Year ended December 31, 2015	Year ended December 31, 2014
Employee benefit expense	$ **4,032**	$ 4,901
Investor relations	**43**	83
Professional fees	**937**	1,395
Depreciation and amortization	**140**	153
Other expenses	**4,743**	3,833
	$ **9,895**	$ 10,365

39) SUPPLEMENTARY CASH INFORMATION

Change in non-cash working capital items

	December 31, 2015	December 31, 2014
Trade and other receivables	$ **(2,332)**	(2,609)
Inventories	**(389)**	(146)
Prepaid expenses	**(178)**	(331)
Accounts payable and accrued liabilities	**(2,526)**	954
	$ **(5,425)**	$ (2,132)

Allocation of cash and cash equivalents

	December 31, 2015	December 31, 2014
Corporate and other	$ 3,896	$ 38,158
HS Orka	6,449	25,058
	$ **10,345**	$ 63,216