



Consolidated Financial Statements
December 31, 2014 and 2013

(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 24, 2015



March 24, 2015

Independent Auditor's Report

To the Shareholders of Alterra Power Corp.

We have audited the accompanying consolidated financial statements of Alterra Power Corp. and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2014 and the consolidated statement of operations, statement of comprehensive loss, statement of cash flows and the statement of changes in equity for the year 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, 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on 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 is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

**Opinion**

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

Other matter

The financial statements of Alterra Power Corp. for the year ended December 31, 2013, were audited by another auditor who expressed an unmodified opinion on those statements on March 27, 2013.

PricewaterhouseCoopers LLP

Chartered Accountants

Alterra Power Corp.

Consolidated Balance Sheets

(expressed in thousands of United States dollars)

	Note	December 31, 2014	December 31, 2013
Assets			
Current assets			
Cash and cash equivalents	39	\$ 63,216	\$ 41,743
Restricted cash	6	9,672	4,500
Short-term investments		4,321	3,102
Trade and other receivables		11,414	10,584
Inventories		3,381	3,601
Current portion of bonds receivable	14	621	708
Prepaid expenses		483	483
Investment held for sale		—	1,058
		93,108	65,779
Investment in associates	7	125,391	100,528
Bonds receivable	14	1,988	2,725
Long-term receivable and other assets	15	14,540	5,247
Prepaid lease and royalty fee	16	3,901	4,279
Plant and equipment	17	286,513	331,968
Development costs	18	73,171	106,284
Other intangible assets		2,122	1,778
Goodwill	22	10,912	15,020
		518,538	567,829
Assets held for sale	27	11,566	—
Total assets		\$ 623,212	\$ 633,608
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 17,890	\$ 16,202
Current portion of long-term debt	23	17,752	19,304
Current portion of embedded derivatives	31	4,898	4,688
Current portion of currency and interest rate swaps	25	577	3,572
Other liabilities	31	5,778	266
		46,895	44,032
Long-term debt	23	272,378	228,067
Pension fund obligations	24	14,856	15,571
Embedded derivatives	31	39,166	27,916
Currency and interest rate swaps	25	372	2,290
Below market contracts	26	17,923	23,024
Deferred income tax	34	15,680	12,364
Deferred revenue		—	487
		360,375	309,719
Liabilities held for sale	27	1,928	—
Total liabilities		\$ 409,198	\$ 353,751

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

Alterra Power Corp.

Consolidated Balance Sheets

(expressed in thousands of United States dollars)

	Note	December 31, 2014	December 31, 2013
Equity			
Share capital	28	\$ 362,570	\$ 362,420
Contributed surplus		5,733	5,136
Accumulated other comprehensive loss		(24,192)	(282)
Deficit		(205,723)	(169,142)
Total equity attributable to owners of the Company		138,388	198,132
Non-controlling interest	29	75,626	81,725
Total equity		214,014	279,857
Total liabilities and equity		\$ 623,212	\$ 633,608

Commitments (note 33)

Subsequent events (notes 6 and 27)

Approved by the Board of Directors and authorized for issue on March 24, 2015

"Ross Beaty"

Ross Beaty

(Director)

"James Bruce"

James Bruce

(Director)

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

Alterra Power Corp.

Consolidated Statements of Operations

For the years ended December 31, 2014 and 2013

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

		Year ended December 31,	
	Note	2014	2013
Revenues			
Energy sales		\$ 70,353	\$ 63,674
Portfolio energy credit sales		599	198
		70,952	63,872
Cost of sales	36	(53,860)	(50,851)
Gross profit		17,092	13,021
Other income (expenses)			
General and administrative	37	(10,365)	(13,296)
General development expenses		(315)	(672)
Share of results of equity investments	8-13	12,200	13,547
Finance income		2,738	3,044
Finance costs		(8,602)	(9,770)
Change in the fair value of bonds payable		(2,601)	2,699
Change in the fair value of derivatives		(11,846)	(21,710)
Foreign exchange loss		(4,566)	(1,192)
Write-down of development costs and plant and equipment	17,19-21,27	(22,439)	(120,504)
Write-off of goodwill	22	(2,018)	(4,178)
Gain on sale of investments	9,38	—	20,346
Other income (expenses)		511	(1,122)
		(47,303)	(132,808)
Loss before income tax		(30,211)	(119,787)
Income tax recovery (expense)	34	(4,563)	3,526
Loss for the year		\$ (34,774)	\$ (116,261)
Attributable to:			
Owners of the Company		\$ (36,340)	\$ (110,831)
Non-controlling interest		1,566	(5,430)
		\$ (34,774)	\$ (116,261)
Weighted average common shares outstanding (thousands)			
Basic and diluted		467,047	466,469
Loss per common share attributable to owners of the Company			
Basic and diluted		\$ (0.08)	\$ (0.24)

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, 2014 and 2013

(expressed in thousands of United States dollars)

		Year ended December 31,	
	Note	2014	2013
Loss for the year		\$ (34,774)	\$ (116,261)
Other comprehensive income (loss)			
Items that may be reclassified to profit and loss:			
Effective portion of change in fair value of cash flow hedge, net of tax		(7,241)	4,781
Net change in fair value of cash flow hedge transferred to statement of operations, net of tax		1,485	1,548
Foreign currency translation adjustment		(24,816)	25,280
Change in fair value of available-for-sale investments		(238)	—
Items that will never be reclassified to profit and loss:			
Defined benefit plan actuarial losses	24	(454)	(293)
Tax on items that will never be reclassified to profit and loss		91	62
Comprehensive loss for the year		\$ (65,947)	\$ (84,883)
Attributable to:			
Owners of the Company		\$ (60,491)	\$ (86,742)
Non-controlling interest		(5,456)	1,859
Comprehensive loss for the year		\$ (65,947)	\$ (84,883)

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, 2014 and 2013

(expressed in thousands of United States dollars)

		Year ended December 31,	
	Note	2014	2013
Operating activities			
Loss for the year		\$ (34,774)	\$ (116,261)
Items not affecting cash			
Amortization, depreciation, depletion and accretion		13,245	14,172
Amortization of below market contracts	26	(2,038)	(1,957)
Share of results of equity investments		(12,200)	(13,547)
Change in fair value of bonds payable		2,601	(2,699)
Change in fair value of derivatives		11,846	21,710
Finance income and costs, net		5,864	6,726
Unrealized foreign exchange loss		4,566	1,192
Deferred income tax expense (recovery)		4,563	(3,526)
Stock-based compensation	28	574	675
Development costs and plant and equipment write-down		22,439	120,504
Goodwill written off		2,018	4,178
Gain on sale of investments		—	(20,346)
Other		96	1,267
Distribution received from Toba Montrose General Partnership	8	12,117	3,613
Distribution received from Dokie General Partnership	9	1,325	2,750
Distribution received from Blue Lagoon hf	12	2,812	1,813
Interest received		1,859	1,948
Interest paid		(7,600)	(8,662)
Taxes paid		(340)	—
Change in non-cash working capital items	39	(2,132)	3,003
Cash generated by operating activities		26,841	16,553
Financing activities			
New borrowings	23	126,942	19,184
Financing fees on holding company loan facility	23	(3,472)	—
Repayment of loans	23	(66,272)	(45,776)
Other		(642)	(413)
Cash generated by (used in) financing activities		56,556	(27,005)
Investing activities			
Purchase of plant and equipment		(9,087)	(11,680)
Geothermal development costs		(127)	(3,308)
Hydro development costs		(47,568)	(6,252)
Wind development costs		(5,698)	(152)
Return of Jimmie Creek development capital	20	20,336	—
Sale of short-term investments		3,102	1,948
Security deposits		(10,330)	—
Purchase of shares in ABW Solar		—	(7,070)
Proceeds from sale of investments		—	37,069
Restricted cash		(5,172)	—
Investment in associates		(1,782)	—
Other		(2,703)	(2,530)
Cash generated by (used in) investing activities		(59,029)	8,025
Effect of foreign exchange on cash		(2,827)	4,959
Increase in cash and cash equivalents		21,541	2,532
Cash and cash equivalents - beginning of year		41,743	39,211
Cash classified as held for sale	27	(68)	—
Cash and cash equivalents - end of year		\$ 63,216	\$ 41,743
Supplementary cash flow 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, 2014 and 2013

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

		Common shares		Contributed surplus	Accumulated other comprehensive income (loss)		Non - controlling interest	Total equity
	Note	Number of shares	Amount			Deficit		
Balance, January 1, 2013		465,699,449	\$362,043	\$ 4,427	\$ (24,525)	\$ (58,157)	\$ 80,259	\$ 364,047
Shares issued to employees	28	999,995	377	—	—	—	—	377
Options granted to employees	28	—	—	709	—	—	—	709
Foreign currency translation adjustment		—	—	—	17,914	—	7,366	25,280
Dividend declared from HS Orka hf		—	—	—	—	—	(393)	(393)
Effective portion of change in fair value of cash flow hedge, net of tax		—	—	—	4,781	—	—	4,781
Net change in fair value of cash flow hedge transferred to statement of operations, net of tax		—	—	—	1,548	—	—	1,548
Defined benefit plan actuarial losses, net of taxes		—	—	—	—	(154)	(77)	(231)
Loss for the year		—	—	—	—	(110,831)	(5,430)	(116,261)
Balance, December 31, 2013		466,699,444	\$362,420	\$ 5,136	\$ (282)	\$ (169,142)	\$ 81,725	\$ 279,857
Shares issued to employees	28	563,917	150	—	—	—	—	150
Value assigned to options granted	28	—	—	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) profit 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

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

Alterra Power Corp.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

(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 and operation of renewable power projects. As at December 31, 2014, the Company's operating facilities consisted of a 66.6% net interest in two geothermal power plants in Iceland ("Svartsengi" and "Reykjanes"), a 100% interest in one geothermal power plant in Nevada ("Soda Lake"), a 40% net interest in two run of river hydro power plants ("Toba Montrose") in British Columbia, and a 25.5% net interest in a wind farm ("Dokie 1") in British Columbia.

At December 31, 2014, the Company's construction assets consisted of a 51% net interest in the Jimmie Creek hydro project located in British Columbia and a 100% interest in the Shannon wind project located in Texas, which are expected to achieve commercial operation in early summer 2016 and the fall of 2015 respectively.

In addition to the operating facilities and assets under construction, at December 31, 2014 the Company also has the following development assets:

Location	Project	Ownership	Technology
Canada	Bute Inlet	100%	Hydro
	Dokie 2	51%	Wind
	Coastal wind projects	100%	Wind
	Other early stage projects	100%	Hydro
Iceland	Reykjanes 3-4 (potential expansion)	67%	Geothermal
	Eldvörp / Krýsuvík / Trölladyngja	67%	Geothermal
	Búlandsvirkjun	33%	Hydro
	Hvalá	24%	Hydro
	Other early stage projects	67%	Geothermal/Hydro
Chile	Mariposa	30%	Geothermal
Peru	Multiple early stage projects	30%	Geothermal
USA	Soda Lake Solar	100%	Solar
	McCoy / Desert Queen / other	100%	Geothermal
	Soda Lake expansion	100%	Geothermal
Italy	Mensano / Roccastrada	45%	Geothermal

In August 2014, the Company finalized the sale of its investment in AG Solar One to Greenbriar Capital Corp. ("Greenbriar") and in exchange received shares and warrants in Greenbriar. The Company now holds an available-for-sale investment in Greenbriar that is classified as a short-term investment on the Balance Sheet.

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 either net

Alterra Power Corp.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

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

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

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.

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 24, 2015.

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 (currency and 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 Holdings I, LLC, Soda Lake Holdings II, LLC, Amor IX LLC, Soda Lake Limited Partnership, Soda Lake Resources Partnership, Soda Lake Solar, LLC, Shannon Wind Holdings, LLC, Shannon Wind, LLC, South Clay Wind Farm, LLC and Shannon-1 Wind Farm, 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.

Alterra Power Corp.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

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

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 Holdings I, LLC, Soda Lake Holdings II, LLC, Amor IX LLC, Soda Lake Limited Partnership, Soda Lake Resources Partnership, 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., Jimmie Hydro 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., Shannon Wind Holdings, LLC, 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., Shannon Wind, LLC, South Clay Wind Farm, LLC and Shannon-1 Wind Farm, LLC.

At December 31, 2014, the Company held a 66.6% interest in HS Orka hf ("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, 2014 the remaining 33.4% non-controlling interest in equity.

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 changes is recognized in the statement of operations and no change in the carrying amounts of assets

Alterra Power Corp.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

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

3) SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 ("TMGP,"), a joint venture, which owns and operates the Toba Montrose Facility, and a 25.5% interest in Dokie General Partnership ("DGP"), a joint venture, which owns and operates the Dokie 1 Wind Farm.

The Company also equity accounts for the following investments in construction and development properties; a 51% investment in Jimmie Creek Limited Partnership, a joint venture that owns the Jimmie Creek project, 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 33.0% interest in Bláa Lõnið 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.

Alterra Power Corp.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

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

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 investment in Greenbriar.

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 and short-term investments are classified at fair value through profit or loss with the exception of the Company's investment in Greenbriar which is classified as available-for-sale.

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

Alterra Power Corp.

Notes to the Consolidated Financial Statements

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

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 earn-out payments related to the sale of 50% of the Company's interest in the Dokie 1 wind farm and the shares held in Greenbriar are classified as available-for-sale financial assets.

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 all of its bonds payable and currency and interest rate swaps held at HS Orka as financial liabilities at fair value through profit or loss as the bonds payable contain embedded derivatives.

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3) SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other financial liabilities

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

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

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.

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3) SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 TMGP interest rate swap and the holding company loan facility interest rate swaps which are designated as cash flow hedges of the underlying variable rate debt.

Other derivatives and separable embedded derivatives

The Company holds certain derivative financial instruments to economically hedge certain of its foreign currency and interest rate risk exposures. Hedge accounting is not applied to these instruments.

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,

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3) SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, Soda Lake's facility components range from 2 to 20 years and TMGP's facility components range from 2 to 70 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

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3) SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

DGP'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, Dokie 1 and Jimmie Creek respectively, 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.

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3) SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 TMGP and DGP, and the DGP 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.

I) 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

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3) SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

m) Income taxes

Income tax expense is comprised of current and deferred income tax. Current income tax and deferred income tax are recognized in the statement of operations except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income.

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

Deferred income tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

Deferred income tax is not recognized for:

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

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

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

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3) SIGNIFICANT ACCOUNTING POLICIES (Continued)

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) 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.

No decommissioning liability has been recognized for Toba Montrose, Dokie 1, or the Svartsengi, Reykjanes and Soda Lake 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.

p) 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 portfolio energy credits, which only occur 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 the Toba Montrose Facility and 330,000 MWh for the Dokie 1 Wind Farm, 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 acquisitions of Soda Lake and HS Orka are recognized on a straight-line basis over the remaining life of the respective contract and included in revenue.

q) 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.

r) 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

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3) SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

s) Lease accounting

At inception of long-term power sales arrangements, the Company determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if 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 other leases are categorized as operating leases.

t) 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.

u) Comparative figures

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

v) Changes in accounting standards

The Company has adopted the following new IFRS standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional

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3) SIGNIFICANT ACCOUNTING POLICIES (Continued)

provisions. The nature and impact of each new standard and amendment applicable to the Company are described below:

International Accounting Standards ("IAS") 32: Offsetting financial assets and financial liabilities (amended)

Offsetting financial assets and financial liabilities (amendments to IAS 32) clarifies the offsetting criteria in IAS 32 by explaining when an entity has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. At January 1, 2014, the Company adopted this standard and there was no impact on its consolidated financial statements.

IAS 36: Impairment of assets

Impairment of assets (amendments to IAS 36) was amended to clarify disclosure requirements when a recoverable amount is determined based on fair value less costs to sell. At January 1, 2014, the Company adopted this standard which resulted in additional disclosures, refer to note 27.

At December 31, 2014, 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 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 new general hedge accounting standards. The effective date is January 1, 2018. The Company is currently evaluating the impact of these amendments.

IFRS 3: Business combinations (amended)

Business combinations (amendments to IFRS 3) provides clarification related to contingent consideration in a business combination. The amendments are effective for business combinations where the acquisition date is on or after July 1, 2014. There have been no acquisitions with contingent consideration occurring after July 1, 2014. The Company will evaluate the impact of this amendment in the future if there is a business combination involving contingent consideration.

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

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3) SIGNIFICANT ACCOUNTING POLICIES (Continued)

periods commencing on or after July 1, 2014. The Company does not expect the amendments to IFRS 8 to have a material 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 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, 2017. The Company is currently evaluating the impact of these amendments.

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 corporate assets, 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.

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

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5) KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

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, 19-22 and 27)
- (b) Fair value of financial instruments including embedded derivatives (note 31)
- (c) Income taxes (note 34)
- (d) Amortization of plant and equipment (note 17)
- (e) Pension fund obligations (note 24)
- (f) Shannon Wind, LLC contingent payment (note 11)
- (g) Fair value of initial investment in Jimmie Creek Limited Partnership ("JCLP") (note 10)

6) RESTRICTED CASH

As at December 31, 2014, there is \$9.7 million in restricted cash. 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, 2013 – \$4.5 million). The remaining \$5.2 million relates to a C\$6.0 million distribution received from Toba Montrose on December 31, 2014 which was recorded as restricted cash until February 5, 2015 when the quarterly interest payment on the holding company loan facility was paid. Subsequent to the interest payment, the remaining amount of C\$4.8 million was released to the Company.

7) INVESTMENT IN ASSOCIATES

	Note	December 31, 2014	December 31, 2013
Toba Montrose General Partnership	8	\$ 26,977	\$ 39,879
Dokie General Partnership	9	8,269	9,648
Jimmie Creek Limited Partnership	10	40,809	—
Shannon Wind, LLC	11	—	1,193
Blue Lagoon hf	12	20,834	20,985
Geothermal development projects:			
Mariposa	13	22,525	24,478
Peru concessions	13	2,395	729
Italy	13	995	1,466
Other investments		2,587	2,150
Total		\$ 125,391	\$ 100,528

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8) INVESTMENT IN TOBA MONTROSE GENERAL PARTNERSHIP

- a) The Company holds a 51% non-participating and voting interest in the partnership and 40% non-voting and participating interest in TMGP. In 2046, the Company's economic interest will increase to 51% for no additional consideration and its partner's economic interest in TMGP will decrease from 60% to 49%.
- b) The Company's economic interest in the assets, liabilities, revenue and expenses and cash flows of TMGP is accounted for under the equity method of accounting (as the partnership is a joint venture). Amounts included in these consolidated financial statements are further described as follows:

Investment in TMGP	
Investment at January 1, 2013	\$ 27,404
Share of comprehensive income	15,508
Distributions received and receivable	(799)
Foreign exchange impact	(2,234)
Investment at December 31, 2013	39,879
Share of comprehensive income	2,453
Distributions received	(12,117)
Foreign exchange impact	(3,238)
Investment at December 31, 2014	\$ 26,977

The following tables summarize the financial information of TMGP 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 TMGP:

	December 31, 2014	December 31, 2013
Cash and cash equivalents	\$ 15,185	\$ 16,103
Trade and other receivables	2,532	8,994
Prepaid expenses	3,291	5,457
Plant and equipment	481,526	534,143
Intangible assets	7,660	9,461
Other assets	1,878	1,280
	512,072	575,438
Accounts payable and accrued liabilities	6,263	4,915
Long-term debt	385,288	424,456
Interest rate swaps	48,123	40,575
	439,674	469,946
Net assets (100%)	\$ 72,398	\$ 105,492
Share of net assets (40%)	28,959	42,197
Purchase price adjustments	(1,982)	(2,318)
Share of net assets	\$ 26,977	\$ 39,879

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Notes to the Consolidated Financial Statements

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

8) INVESTMENT IN TOBA MONTROSE GENERAL PARTNERSHIP (Continued)

		Year ended December 31, 2014		Year ended December 31, 2013
Revenue	\$	71,492	\$	50,382
Cost of sales		(10,905)		(12,505)
Depreciation and amortization		(11,570)		(12,808)
Interest expense		(26,002)		(28,166)
Property insurance proceeds		1,979		26,055
Business interruption proceeds		—		17,916
Other expenses		(7,876)		(17,554)
Unrealized gain (loss) on interest rate swaps		708		(759)
Net income (100%)	\$	17,826	\$	22,561
Share of net income (40%)		7,130		9,024
Purchase price adjustments		168		155
Share of net income	\$	7,298	\$	9,179

		Year ended December 31, 2014		Year ended December 31, 2013
Other comprehensive income (loss) (100%)	\$	(12,113)	\$	15,823
Share of other comprehensive income (loss) (40%)		(4,845)		6,329
Share of net income		7,298		9,179
Share of comprehensive income (40%)	\$	2,453	\$	15,508

TMGP's other comprehensive income consists solely of changes in the value of the effectively hedged portion of TMGP's interest rate swap hedging instrument.

During the year ended December 31, 2014 an insurance claim was settled relating to penstock damage from a natural occurring rockslide in December 2012. Insurance proceeds of \$9.7 million were received during the year, primarily related to amounts recognized in 2013 (of which the Company's proportionate share was \$3.9 million). The Company's share of total property insurance proceeds was \$11.8 million, of which \$10.4 million was recognized in 2013 and \$0.6 million in 2012. Total business interruption proceeds was \$7.2 million which was received in 2013.

In June 2014, TMGP secured new insurance, effective immediately, at substantially the same coverage terms that existed prior to the rockslide and in July 2014, the distribution waiver under the project's loan agreement was extinguished. Subsequent to this, the Company has received two distributions from the project totalling \$12.1 million.

The Company's 40% share of long-term debt repayments as at December 31, 2014 is as follows:

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8) INVESTMENT IN TOBA MONTROSE GENERAL PARTNERSHIP (Continued)

		Principal		Interest		Total
2015	\$	1,784	\$	9,868	\$	11,652
2016		1,898		9,774		11,672
2017		2,018		9,647		11,665
2018		2,147		9,519		11,666
2019		2,283		9,383		11,666
Thereafter		145,792		151,935		297,727
Total	\$	155,922	\$	200,126	\$	356,048

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

TMGP is subject to certain covenants regarding its loan agreements and as at December 31, 2014 was in compliance with all debt covenants.

9) INVESTMENT IN DOKIE GENERAL PARTNERSHIP

- a) The Company holds a 25.5% interest in DGP (December 31, 2013 - 25.5%). On December 20, 2013 the Company sold half of its original 51% interest in DGP to a fund managed by Fiera Axiom Infrastructure Inc. ("Fiera Axiom") (which owned 49% of DGP prior to the sale). The Company received initial sales proceeds of \$26.8 million that resulted in a gain of \$17.6 million. The Company also has the opportunity to receive further earn-out payments over the subsequent three years depending on asset performance. The first of the earn-out payments (\$0.6 million) has since expired, however; two further earn-out payments (\$0.6 million per annum) are still available. As at December 31, 2014, these earn-out payments have a fair value of \$0.6 million and are recorded in long-term receivable and other assets.
- b) The Company's economic interest in the assets, liabilities, revenue and expenses and cash flows of DGP 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 DGP	
Investment at January 1, 2013	\$ 22,070
Share of comprehensive income	1,323
Distributions received and receivable	(1,979)
Sale of 50% interest in investment	(10,258)
Foreign exchange impact	(1,508)
Investment at December 31, 2013	9,648
Share of comprehensive income	536
Distribution received and receivable	(1,147)
Foreign exchange impact	(768)
Investment at December 31, 2014	\$ 8,269

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9) INVESTMENT IN DOKIE GENERAL PARTNERSHIP (Continued)

The following tables summarize the financial information of DGP 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 DGP:

	December 31, 2014	December 31, 2013
Cash and cash equivalents	\$ 3,508	\$ 4,655
Restricted cash (debt service reserve)	6,280	7,093
Trade and other receivables	4,294	3,889
Prepaid expenses	637	1,201
Plant and equipment	128	359
Intangible assets	160,406	183,214
	175,253	200,411
Accounts payable and accrued liabilities	2,577	4,235
Long-term debt	133,927	150,772
	136,504	155,007
Net assets (100%)	\$ 38,749	\$ 45,404
Share of net assets (25.5%)	9,881	11,578
Purchase price adjustments	(1,612)	(1,930)
Share of net assets	\$ 8,269	\$ 9,648

	Year ended December 31, 2014	Year ended December 31, 2013
Revenue	\$ 29,927	\$ 33,413
Cost of sales	(8,173)	(9,385)
Depreciation and amortization	(8,023)	(8,645)
Interest expense	(10,414)	(11,491)
Other expenses	(1,789)	(1,721)
Net income (100%)	\$ 1,528	\$ 2,171
Share of net income ^(a)	390	979
Purchase price adjustments	146	344
Share of comprehensive income	\$ 536	\$ 1,323

(a) Reflecting ownership percentage for the year ended December 31, 2014 of 25.5% and from January 1 to December 19, 2013 an ownership percentage of 51% and 25.5% for the remainder of the year.

The Company's 25.5% share of long-term debt repayments as at December 31, 2014 is as follows:

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9) INVESTMENT IN DOKIE GENERAL PARTNERSHIP (Continued)

		Principal		Interest		Total
2015	\$	1,133	\$	2,448	\$	3,581
2016		1,056		2,370		3,426
2017		931		2,296		3,227
2018		1,617		2,219		3,836
2019		1,660		2,104		3,764
Thereafter		28,497		13,371		41,868
Total	\$	34,894	\$	24,808	\$	59,702

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

In 2009, DGP 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, 2014, DGP recorded an amount of \$157.2 million (December 31, 2013: \$179.4 million) in its books, of which the Company's proportionate interest is \$40.1 million (December 31, 2013: \$45.7 million).

DGP is subject to certain covenants regarding its loan agreements and as at December 31, 2014 was in compliance with all debt covenants.

10) INVESTMENT IN JIMMIE CREEK LIMITED PARTNERSHIP

- a) On April 4, 2014, the Company entered into a partnership agreement with Fiera Axiom and following completion of project financing (see below), Fiera Axiom owns 49% of the project.

On October 14, 2014, the Company completed a C\$176.5 million non-recourse loan facility 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 JCLP at fair value. 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 (refer to note 20).

Jimmie Creek is being constructed under an engineering, procurement, construction and management ("EPCM") contract with an affiliate of SNC Lavalin Inc. During the year, road, bridge, camp construction and powerhouse excavation was completed and advancements were made on the construction of the powerhouse, penstock and intake.

- b) The Company's economic interest in the assets, liabilities, revenue and expenses and cash flows of JCLP is accounted for under the equity method (as the partnership is a joint venture). The Company's initial investment in JCLP 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 result in an increase of \$3.5 million or decrease of \$3.0 million in the fair value of the Company's investment in JCLP. Amounts included in these consolidated financial statements are further described as follows:

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10) INVESTMENT IN JIMMIE CREEK LIMITED PARTNERSHIP (Continued)

Investment in JCLP		
Initial investment at October 14, 2014	\$	42,131
Share of comprehensive income		—
Foreign exchange impact		(1,322)
Investment at December 31, 2014	\$	40,809

The following table summarizes the financial information of JCLP as included in its own financial statements, adjusted for non-partnership costs and purchase price adjustments, and reconciles the financial information to the Company's carrying value in JCLP:

	December 31, 2014
Cash reserved for construction activities	\$ 2,960
Cash held in escrow restricted for construction	14,565
Trade and other receivables	878
Builders' lien holdback deposits	1,593
Equity contribution receivable from partner	21,513
Development costs	67,831
Intangible assets	103
	109,443
Accounts payable and accrued liabilities	9,812
Lien holdback liability	2,033
Long-term debt	53,694
	65,539
Net assets (100%)	\$ 43,904
Share of net assets (51%)	22,391
Non-partnership costs and purchase price adjustments	18,418
Share of net assets	\$ 40,809

JCLP has \$nil comprehensive income at December 31, 2014.

Long-term debt at December 31, 2014 reflects the amounts drawn on the loan facility. Following conversion of the loan from a construction to a term loan, projected to occur in 2016, JCLP will commence making principal repayments.

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

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10) INVESTMENT IN JIMMIE CREEK LIMITED PARTNERSHIP (Continued)

		Principal		Interest		Total
2015	\$	—	\$	2,770	\$	2,770
2016		—		2,981		2,981
2017		1,353		4,076		5,429
2018		326		4,005		4,331
2019		407		3,988		4,395
Thereafter		75,485		110,863		186,348
Total	\$	77,571	\$	128,683	\$	206,254

Note: This schedule is based on the Company's net interest of the full loan amount of C\$176.5 million, at December 31, 2014 only \$53.7 million had been drawn.

11) INVESTMENT IN SHANNON WIND, LLC

- a) On November 29, 2013 the Company acquired a 10% interest in Shannon Wind, LLC ("SWLLC") which acquired the Shannon wind farm ("Shannon"), a 204 MW wind generation project located in Clay County, Texas, USA, previously held in a partnership with a group led by Horn Wind, LLC. On February 13, 2014 the Company completed the acquisition of the remaining 90% of SWLLC for consideration of \$0.3 million together with a contingent developer fee, calculated based on Shannon's nameplate generation capacity, and payable at the financial closing of the project. The maximum payment for the developer fee is \$8.0 million less amounts paid and other adjustments resulting in a net fee of \$6.5 million. The contingent developer fee has been recorded as a contingent liability at its fair value.

The Company originally accounted for the interest in SWLLC as an equity investment (\$1.2 million and \$1.3 million at December 31, 2013 and at the point of transaction, February 13, 2014, respectively); however, subsequent to the acquisition of the remaining 90% in February 2014, the Company consolidated SWLLC.

- b) The acquisition of SWLLC was accounted for as a business combination.

Consideration transferred

The following summarizes the consideration transferred at the acquisition date:

Cash paid	\$	300
Contingent payment		6,398
	\$	6,698

Identifiable assets acquired and liabilities assumed

Due to the recent nature of all assets acquired or liabilities assumed (purchased or incurred within 12 months of the acquisition date), book value and amounts paid are assumed to equal fair value at the date of purchase, and allocated as follows:

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11) INVESTMENT IN SHANNON WIND, LLC (Continued)

Cash and cash equivalents	\$	178
Development costs		8,265
Plant and equipment		98
Accounts payable and accrued liabilities		(546)
	\$	7,995
Total consideration	\$	6,698
Adjustment for prior 10% ownership		1,297
	\$	7,995

12) INVESTMENT IN BLUE LAGOON

During the year the Company, through HS Orka, held an interest of 33.0% in Blue Lagoon, which operates a geothermal spa in Iceland. The Company equity accounts for this investment.

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, 2014	December 31, 2013
Cash and cash equivalents	\$ 14,757	\$ 11,226
Trade and other receivables	2,176	2,463
Prepaid expenses	2,381	2,596
Plant and equipment	40,407	43,568
Other assets	3,315	1,320
	63,036	61,173
Accounts payable and accrued liabilities	3,672	3,502
Other liabilities	7,230	6,249
Long-term debt	30,232	34,505
	41,134	44,256
Net assets (100%)	\$ 21,902	\$ 16,917
Share of net assets (33%)	7,228	5,583
Purchase price adjustments	13,606	15,402
Share of net assets	\$ 20,834	\$ 20,985

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12) INVESTMENT IN BLUE LAGOON (Continued)

	Year ended December 31, 2014	Year ended December 31, 2013
Revenue	\$ 52,916	\$ 42,217
Cost of sales	(30,356)	(24,831)
Interest expense	(1,636)	(2,198)
Depreciation	(1,805)	(2,124)
Other income	(69)	380
Income tax	(3,814)	(2,612)
Net income (100%)	\$ 15,236	\$ 10,832
Share of net income (33%)	5,028	3,575
Purchase price adjustments	(286)	(274)
Share of net income	\$ 4,742	\$ 3,301

In 2014, Blue Lagoon declared and paid a dividend of which HS Orka's share was \$2.8 million (2013 - \$1.8 million).

13) INVESTMENT IN GEOTHERMAL DEVELOPMENT PROJECTS

a) Investment in South American development projects:

The Company finalized a joint venture with Energy Development Corporation ("EDC") on August 28, 2013 for the development of the Mariposa project in Chile (comprised of the Maule and Pellado concessions) and the Crucero, Loriscota and Tutapaca Norte concessions in Peru, with the Company retaining a 30% interest in each concession.

During 2014, the Company and EDC continued development activities at Mariposa in preparation for planned drilling in late 2015, including upgrades to existing access roads, construction of new roads, and upgrades of camp facilities. In Peru, the Company decided not to progress further with the Crucero, Loriscota and Tutapaca Norte concessions. The joint venture has been terminated and the investment value associated with this joint venture (\$0.7 million) has been written off and included in other income and expenses within the statement of operations.

On January 8, 2014, the Company completed a further joint venture with EDC covering the remainder of the Company's geothermal development assets in Peru. Under the agreement, EDC obtained a 70% interest in the development asset portfolio and will be funding 100% of the next \$6.0 million of development costs. As a result the Company derecognized the development costs and recorded a 30% interest in the joint venture at fair value, which exceeded the carrying value of the development costs resulting in a gain of \$1.0 million. During the year, EDC and the Company decided not to progress further with some of the projects included in the second joint venture.

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

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13) INVESTMENT IN GEOTHERMAL DEVELOPMENT PROJECTS (Continued)

		Mariposa	Peruvian concessions	Total
Initial investment - August 28, 2013	\$	25,000	\$ 739	\$ 25,739
Share of comprehensive loss		(167)	—	(167)
Foreign exchange		(355)	(10)	(365)
Investment at December 31, 2013		24,478	729	25,207
Initial investment - Peru joint venture - January 8, 2014		—	2,571	2,571
Share of comprehensive loss		(55)	—	(55)
Write-off of August 28, 2013 Peru joint venture		—	(682)	(682)
Foreign exchange		(1,898)	(223)	(2,121)
Investment at December 31, 2014	\$	22,525	\$ 2,395	\$ 24,920

b) Investment in Italian development projects:

The Company finalized a joint venture with an affiliate of Graziella Green Power ("Graziella") on November 28, 2013. The joint venture will further advance the Mensano and Roccastrada geothermal concessions. In accordance with the joint venture agreement, Graziella will fund approximately \$4.0 million for the joint venture's next development activities, and will own a 55% interest in the joint venture.

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

	Italy Projects
Initial investment - November 28, 2013	\$ 1,447
Foreign exchange	19
Investment at December 31, 2013	1,466
Share of comprehensive loss	(321)
Foreign exchange	(150)
Investment at December 31, 2014	\$ 995

14) BONDS RECEIVABLE

The bonds receivable of \$2.6 million at December 31, 2014 (December 31, 2013 - \$3.4 million) are denominated in ISK (December 31, 2014 - ISK 333 million; December 31, 2013 - ISK 395 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.

15) LONG-TERM RECEIVABLE AND OTHER ASSETS

The long-term receivable of \$3.1 million at December 31, 2014 (December 31, 2013 - \$2.9 million) is denominated in ISK (December 31, 2014 - ISK 396 million; December 31, 2013 - ISK 331 million) and is due from HS Veitur hf ("HS Veitur") due to its share of a pension liability (note 24). Other assets consist primarily of deposits and potential earn-out payments receivable associated with the partial sale of the Company's interest in DGP (note 9) and a \$10.1 million cash security deposit with Oncor Electric Delivery Company LLC, the transmission service provider for Shannon.

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16) PREPAID LEASE AND ROYALTY FEE

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 remaining life of the lease of 60 years.

17) PLANT AND EQUIPMENT

	Plant and Equipment	Furniture and Equipment	Assets Under Construction	Total
Cost				
Balance, January 1, 2013	\$ 321,057	\$ 2,299	\$ 30,651	\$ 354,007
Additions	10,242	17	1,450	11,709
Disposals	(10)	(114)	—	(124)
Write-down	(28,959)	(865)	(2,012)	(31,836)
Effect of movement in exchange rates	32,140	(96)	3,254	35,298
Balance, December 31, 2013	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 (note 27)	(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
Depreciation and impairment losses				
Balance, January 1, 2013	\$ (27,048)	\$ (1,624)	\$ —	\$ (28,672)
Depreciation for the year	(12,793)	(167)	—	(12,960)
Disposals	2	49	—	51
Write-down	6,879	708	—	7,587
Effect of movement in exchange rates	(3,149)	57	—	(3,092)
Balance, December 31, 2013	(36,109)	(977)	—	(37,086)
Depreciation for the year	(12,039)	(62)	—	(12,101)
Disposals	108	259	—	367
Reclassification of assets held for sale (note 27)	996	511	—	1,507
Effect of movement in exchange rates	4,477	19	—	4,496
Balance, December 31, 2014	\$ (42,567)	\$ (250)	\$ —	\$ (42,817)
Carrying amounts				
At December 31, 2013	\$ 298,361	\$ 264	\$ 33,343	\$ 331,968
At December 31, 2014	256,550	58	29,905	286,513

a) Capital commitments

The Company commenced construction of a new discharge pipe system for the Svartsengi plant in 2013 and construction is ongoing. Once the discharge system is completed and in full operation, additional geothermal fluid can be extracted from the reservoir resulting in increased power generation. In addition, the Company has entered into a contract for drilling three new wells, one at Reykjanes and two at Svartsengi, which will mostly take place in 2015. The total capital commitment in these projects is approximately \$12.6 million (ISK 1,604 million) in 2015.

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17) PLANT AND EQUIPMENT (Continued)

b) Pledge of assets

The Company's power plants at Reykjanes and Svartsengi are pledged as collateral in the amount of \$83.3 million (December 31, 2013 - \$105.9 million) under the HS Orka loans (note 23(c)).

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 19(g) for key assumptions applied. As the recoverable amount was found to exceed the carrying value, no impairment was taken. In 2013, a \$22.1 million write-down on the Soda Lake operating facility was recorded. Additionally a \$2.2 million write-down on plant and equipment held in Chile and Italy was realized upon entering into the joint ventures.

At December 31, 2014, the Company has classified the Soda Lake plant and equipment as held for sale (note 27).

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, 2014	December 31, 2013
Geothermal	19	\$ 56,961	\$ 70,338
Hydro	20	112	17,004
Wind	21	16,098	18,942
Total		\$ 73,171	\$ 106,284

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19) GEOTHERMAL DEVELOPMENT COSTS

The continuity of the Company's expenditures on its geothermal development properties which were not held in equity accounted joint ventures during 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

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19) GEOTHERMAL DEVELOPMENT COSTS (Continued)

	Balance			Effect of			Balance
	January 1,	Development		Reporting	Costs		December 31,
	2013	Costs	Depletion	Currency	Written	Reclassification	2013
				Translation	Off		
USA - Nevada							
McCoy	\$ 8,056	\$ 34	\$ —	\$ —	\$ (6,590)	\$ —	\$ 1,500
Desert Queen	3,331	23	—	—	(1,854)	—	1,500
Granite Springs	663	67	—	—	—	—	730
Hawthorne	814	3	—	—	—	—	817
Soda Lake expansion	3,446	38	(42)	—	(3,442)	—	—
Chile							
Maule	20,032	369	—	(678)	(488)	(19,235)	—
Pellado	5,623	336	—	(194)	—	(5,765)	—
Tres Puntas	98	—	—	—	(98)	—	—
Los Cristales	97	—	—	—	(97)	—	—
Peru							
Huaynaputina	160	4	—	(9)	—	—	155
Casiri	170	4	—	(10)	—	—	164
Ccollo	160	3	—	(9)	—	—	154
Ticsani	170	—	—	(10)	—	—	160
San Pedro	74	3	—	(4)	—	—	73
Crucero	322	84	—	(11)	(54)	(341)	—
Pinchollo	32	38	—	(3)	—	—	67
Ancoccollo	59	—	—	(4)	—	—	55
Pasto	170	51	—	(12)	—	—	209
Sara Sara	251	81	—	(17)	(315)	—	—
Loriscota	238	38	—	(7)	(19)	(250)	—
Monterrey	56	5	—	(2)	(59)	—	—
Atarani	141	39	—	(10)	—	—	170
Panejo	131	51	—	(10)	—	—	172
Tutupaca Norte	148	75	—	(3)	(72)	(148)	—
Suche	114	74	—	(10)	—	—	178
Italy							
Mensano	1,029	301	—	(75)	(387)	(868)	—
Roccastrada	714	241	—	(54)	(322)	(579)	—
Canada							
Upper Lillooet	264	47	—	(14)	—	—	297
Iceland							
Geothermal property rights - operating	47,088	—	(819)	5,233	—	—	51,502
Geothermal property rights - expansion	11,178	—	—	1,257	—	—	12,435
Eldvörp	2,669	180	—	297	(3,146)	—	—
Krýsuvík	13,129	431	—	694	(14,254)	—	—
Trölladyngja	1,389	—	—	156	(1,545)	—	—
	\$ 122,016	\$ 2,620	\$ (861)	\$ 6,491	\$ (32,742)	\$ (27,186)	\$ 70,338

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19) GEOTHERMAL DEVELOPMENT COSTS (Continued)

a) USA

During 2008 and 2009, the Company acquired a number of geothermal leases in Nevada. At December 31, 2014, the US geothermal assets have been classified as held for sale (note 27).

b) Chile

In 2008, the Company acquired the Maule property located in the Laguna Del Maule area. In 2010, the Company was awarded the Pellado property, the Los Cristales and Tres Puntas geothermal leases as well as an exploitation permit on the Maule property. Together the Maule and Pellado concessions form the Mariposa geothermal reservoir (the "Mariposa Project").

The Company finalized a joint venture with EDC on August 28, 2013 for the development of the Mariposa Project. The Company accounts for its 30% interest as an equity investment (note 13).

c) Peru

Since 2011, the Company has been awarded a number of geothermal or exploration concessions in Peru. On August 28, 2013 and January 8, 2014, the Company finalized two joint ventures with EDC for the development of the Peruvian geothermal development assets. The Company now accounts for its 30% interest in the assets as equity investments (note 13).

d) Italy

In March 2011, the Company was awarded the Mensano and Roccastrada geothermal leases. The Company finalized a joint venture with Graziella on November 28, 2013 which is now advancing the Mensano and Roccastrada geothermal concessions. The Company accounts for its 45% interest in the company as an equity investment (note 13).

e) Canada

In July 2011, the Company was awarded two geothermal exploration concessions in the Upper Lillooet area in British Columbia, Canada, covering 4,942 hectares. During the year, due to the continued poor outlook for power offtake contracts in the near future, the Company allowed the concessions to lapse; this resulted in a write-off of \$0.3 million.

f) Iceland

The Company holds a number of exploration-stage geothermal properties in Iceland. In 2013, due to the uncertainty surrounding these projects due to increased construction costs, the Company wrote down the projects to \$nil. The Company has kept these projects in good standing and may look to develop these projects in the future when market pricing improves.

g) Impairment

The Company reviews the carrying values of geothermal development properties on an annual basis. The recoverable amounts of geothermal development costs for impairment assessment purposes of the assets located in the U.S. were determined using fair value less costs to sell (note 27). The recoverable amounts of the remaining geothermal development assets were determined using discounted cash flow calculations

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19) GEOTHERMAL DEVELOPMENT COSTS (Continued)

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 6.6% and inflation rate of 2.0% (refer to note 22 for further information).

During the year ended December 31, 2014, the Company recorded a total write-down of \$0.3 million in development costs (December 31, 2013 - \$32.7 million). In addition, on reclassification of the geothermal assets in the US to held for sale, these assets were written down to their fair value less costs to sell (note 27).

20) HYDRO DEVELOPMENT COSTS

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

		Jimmie Creek	Bute Inlet	Other projects	Total
Balance, January 1, 2013	\$	22,645	\$ 53,092	\$ 2,571	\$ 78,308
Engineering and hydrology		5,806	108	3	5,917
Permitting		410	10	12	432
Community consultations		82	44	1	127
Write-down of hydro development costs		(10,631)	(50,474)	(2,408)	(63,513)
Foreign exchange impact		(1,352)	(2,780)	(135)	(4,267)
Balance, December 31, 2013		16,960	—	44	17,004
Engineering and hydrology		43,190	—	63	43,253
Permitting		986	—	5	991
Community consultations		292	—	1	293
Acquisition of 49% of Jimmie Creek ^(a)		1,737	—	—	1,737
Foreign exchange impact		(1,487)	—	(1)	(1,488)
Return of investment capital		(20,336)	—	—	(20,336)
Contribution of Jimmie Creek project to JCLP		(41,342)	—	—	(41,342)
Balance, December 31, 2014	\$	—	\$ —	\$ 112	\$ 112

(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 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 the JCLP 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 JCLP at fair value. The Company now accounts for its investment in Jimmie Creek as an equity investment (note 10).

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20) HYDRO DEVELOPMENT COSTS (Continued)

b) Bute Inlet

The Bute Inlet project consists of 17 run of river generating facilities, organized into three interconnected groups with an estimated potential annual generation of 2.9 million MWh. During 2013, due to a decline in the market outlook surrounding renewable energy as a result of the new Integrated Resource Plan ("IRP") from BC Hydro and the uncertainty regarding the ability to obtain PPAs for a project of this magnitude, the Company wrote off the carrying value of the Bute Inlet project, resulting in a write-off of \$50.5 million. The Company remains committed to the development of the Bute Inlet project and may look to develop the project in the future when the market outlook improves.

c) Other projects

The Company has a number of other hydro power development sites with a combined potential annual generation of approximately 1.8 million MWh of electricity, located primarily in the southwestern region of British Columbia. During 2013 the Company wrote down the majority of these other projects due to the decline in the economic outlook as a result of the IRP. The Mill Creek and Raccoon Creek projects were not written down since they fall outside the formal PPA process with BC Hydro under its Standard Offer Program. The Company may continue to collect hydrological data, conduct engineering work, maintain all existing permits in good standing and perform other studies on all sites despite the write down.

The Company also holds a Crown land tenure, an accepted water license application and an investigative use permit for the 1,000 MW Fir Point pumped storage site in southwestern British Columbia as well as the 155 MW Búlandsvirkjun and 55 MW Hvalá early-stage hydroelectric development properties in Iceland (owned 50% and 36% by HS Orka, respectively).

21) WIND DEVELOPMENT COSTS

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

	Shannon	Dokie 2	Coastal Wind	Total
Balance, January 1, 2013	\$ —	\$ 20,093	\$ —	\$ 20,093
Engineering	—	128	—	128
Permitting	—	9	—	9
Community consultations	—	15	—	15
Foreign exchange impact	—	(1,303)	—	(1,303)
Balance, December 31, 2013	—	18,942	—	18,942
Acquisition of Shannon (note 11)	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

(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.

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21) WIND DEVELOPMENT COSTS (Continued)

a) Shannon

During 2014, the Company performed project design, engineering and on-site construction work to further advance the Shannon project. Included in long-term receivable and other assets is a \$10.1 million cash security placed with Oncor Electric Delivery Company LLC, the Shannon transmission service provider, which has begun the construction of the project's interconnection substation.

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.

During the year, the Company continued to collect data and perform other activities to further develop Dokie 2.

As at December 31, 2014, the Company performed an impairment assessment of the project. Due to the expiration of certain contractual conditions with BC Hydro, and the decline in the market outlook surrounding renewable energy as a result of the IRP, the Company 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) Coastal wind

During the year, the Company completed the title transfer for the Company's coastal wind development projects, made associated payments for permit maintenance and engaged further development studies.

d) Impairment test

The Company reviews the carrying values of wind development projects on an annual basis. The recoverable amounts of wind development costs for impairment assessment purposes were determined using a discounted cash flow calculation to estimate their value in use. Key assumptions used in these cash flows include collected wind data, estimated energy prices which the Company's management determined with reference to expected prices in power purchase agreements, costs to complete construction and expected operating costs, an after-tax discount rate of 8.0% and an inflation rate of 2.0%.

During the year ended December 31, 2014, the Company wrote down \$16.8 million in development costs related to Dokie 2 (December 31, 2013 - \$nil). No impairment of Shannon or the coastal wind projects was considered necessary at December 31, 2014.

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22) GOODWILL

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

Balance, January 1, 2013	\$	17,751
Write-off goodwill allocated to development projects		(4,178)
Foreign exchange impact		1,447
Balance, December 31, 2013		15,020
Write-off goodwill allocated to Dokie 2 project		(2,018)
Goodwill allocated to Jimmie Creek (note 10)		(789)
Foreign exchange impact		(1,301)
Balance, December 31, 2014	\$	10,912

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 6.6%. 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.

Based upon management's analysis, the goodwill allocated to Dokie 2 was impaired during 2014, resulting in a write-off of \$2.0 million (note 21).

The goodwill allocated to the Jimmie Creek construction project was derecognized as a result of the Company contributing the project to JCLP. The Company now accounts for its investment in Jimmie Creek as an equity investment (note 10).

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23) LONG-TERM DEBT

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

	December 31, 2014	December 31, 2013
Bonds	\$ 120,769	\$ 124,123
Holding company loan facility	74,129	—
HS Orka loans	95,232	123,248
	290,130	247,371
Less current portion:		
HS Orka loans	17,752	19,304
Long-term portion	\$ 272,378	\$ 228,067

a) Bonds

The movement in bond values from January 1, 2013 to December 31, 2014 is as follows:

Balance, January 1, 2013	\$ 121,103
Change in fair value	(2,699)
Foreign exchange gain	5,719
Balance, December 31, 2013	124,123
Change in fair value	2,601
Foreign exchange loss	(5,955)
Balance, December 31, 2014	\$ 120,769

The assumptions used in determining the fair values of the bonds at December 31, 2014 and 2013 are as follows:

	December 31, 2014	December 31, 2013
Discount rates	7.63% - 9.41%	7.83% - 9.59%
Aluminum prices (\$ per tonne)	\$1,774 - \$1,906	\$1,787 - \$2,019

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 in July and December 2016 and the principal amounts determined are 50% linked to aluminum prices at the settlement date subject to a cap and floor (\$3,250 and \$1,500 respectively).

The bonds are secured by a portion of the Company's ownership shares in HS Orka.

b) Holding company loan facility

On August 12, 2014, the Company closed a C\$110 million holding company loan facility with affiliates of AMP Capital Investors Limited. Proceeds from the loan facility will be received in up to three 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, and tranche C, totaling C\$20.2 million, may be funded following the closing of construction financing for Shannon, subject to certain agreed conditions precedent. The loan facility will mature on February 5, 2023, and has no scheduled

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23) LONG-TERM DEBT (Continued)

payments of principal prior to maturity. The interest rate is CDOR/LIBOR plus 6.5% with interest payments made quarterly. Tranche A and B are secured by the future cash flows from the Company's investments in Toba Montrose, Dokie 1 and Jimmie Creek. The loan is recorded at amortized cost net of transaction fees (C\$3.8 million). Subsequent to funding tranche A and B, the Company entered into two interest rate swaps locking in CDOR interest rates of 2.3% for a notional amount of \$49.0 million and 2.2% for a notional amount \$29.0 million (note 25).

c) HS Orka loans

The HS Orka loans were comprised of the following at December 31, 2014:

Currency	Weighted Average Interest Rate	Year of Maturity	Balance
U.S. Dollar (USD)	2.0%	2019 - 2023	\$ 17,898
European Euro (EUR)	2.8%	2019 - 2021	16,715
Swedish Krona (SEK)	3.1%	2021	4,273
Swiss Franc (CHF)	2.1%	2021 - 2022	25,685
Japanese Yen (JPY)	1.4%	2021 - 2023	7,462
British Pound (GBP)	0.9%	2021	2,355
Canadian Dollar (CAD)	1.7%	2021 - 2023	6,615
Icelandic Krona (ISK)	4.4%	2016 - 2031	14,229
			\$ 95,232

The annual repayments of the loans are as follows:

2015	\$ 17,752
2016	17,938
2017	15,431
2018	13,088
2019	13,088
Thereafter	17,935
	\$ 95,232

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.

As at December 31, 2014, HS Orka and the Company were in compliance with all debt covenants.

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24) PENSION FUND OBLIGATIONS

Following the acquisition of a controlling interest in HS Orka on August 17, 2010, the Company consolidates the results of HS Orka. As part of that consolidation the Company assumed a pension fund obligation of \$11.8 million. 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 (\$3.1 million at December 31, 2014; and \$2.9 million at December 31, 2013). 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 \$14.9 million at December 31, 2014 (December 31, 2013 – \$15.6 million), discounted at a rate of 2%, taking into account the share in the net assets of the pension fund.

HS Veitur's share in the \$1.5 million increase in pension fund obligation during the period amounted to \$0.2 million.

Pension fund obligations January 1, 2013	\$	13,487
Contributions during the year		(658)
Current service cost		131
Interest expense		289
Actuarial changes HS Orka charged to other comprehensive income		293
Actuarial changes HS Veitur charged to statement of operations		464
Foreign exchange movement		1,565
Pension fund obligations December 31, 2013		15,571
Contributions during the year		(642)
Current service cost		167
Interest expense		282
Actuarial changes HS Orka charged to other comprehensive income		454
Actuarial changes HS Veitur charged to statement of operations		578
Foreign exchange movement		(1,554)
Pension fund obligations December 31, 2014	\$	14,856

The pension obligations are as follows:

The pension fund for State employees	\$	7,501
The pension fund for Municipality of Hafnarfjörður employees		4,415
The pension fund for Municipality of Westman Islands employees		2,940
Pension fund obligations December 31, 2014	\$	14,856

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25) CURRENCY AND INTEREST RATE SWAP CONTRACTS

The Company entered into two interest rate swaps during the year related to the holding company loan facility on December 2 (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 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, 2014 as follows:

	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.

The Company's subsidiary, HS Orka, entered into long-term currency and interest rate swap contracts with Glitnir Bank hf ("Glitnir" an Icelandic financial institution) in November 2006 which was taken over by the Financial Supervisory Authority in Iceland, in October 2008. Since 2008 there had been uncertainty over the amount outstanding and due, however, in December 2014 the contract was settled, and the gain on settlement is included in the change in fair value of derivatives in the statement of operations.

26) BELOW MARKET CONTRACTS

The Company acquired 100% of the Soda Lake geothermal facility in 2008, and at the date of acquisition, Soda Lake had (and continues to hold) two long-term power sales agreements with one customer. In August 2011, the Company acquired control of HS Orka, and at the date of acquisition of control HS Orka had three long-term power sales contracts (one contract expired in October 2011) with two customers and now has two power sales contracts with those two customers.

In both cases, the 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 both Soda Lake and HS Orka.

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:

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26) BELOW MARKET CONTRACTS (Continued)

Balance, January 1, 2013	\$	22,699
Amortization to revenue		(1,957)
Foreign exchange impact		2,282
Balance, December 31, 2013		23,024
Amortization to revenue		(2,038)
Reclassification as held for sale ^(a)		(1,101)
Foreign exchange impact		(1,962)
Balance, December 31, 2014	\$	17,923

(a) The Soda Lake below market contract value at December 31, 2014 was reclassified as held for sale. Refer to note 27.

27) ASSETS HELD FOR SALE

During 2014, management planned to sell its 100% interest in the 15 MW Soda Lake geothermal facility as well as certain geothermal development assets ("Soda Lake Facility") and the criteria for assets held for sale was met at the end of 2014, requiring assets and liabilities of the Soda Lake Facility to be classified separately as held for sale.

Upon designation of held for sale an impairment test was required and the fair value less selling costs of the Soda Lake Facility was estimated based on the terms of a draft purchase and sale agreement applying probabilities to the earn-out provisions and using a discount rate of 8%. A write-down of \$5.3 million was recognized to reduce the carrying amount of the net assets held for sale to their fair value less costs to sell. This was recognized in write-down of development costs and plant and equipment in the consolidated statements of operations. The fair value less costs to sell was determined as follows:

Expected sales price	\$	8,500
Working capital adjustment		320
Value of earn-out payments		1,418
Estimated transaction costs		(600)
Fair value less costs to sell	\$	9,638

During 2014, the Company entered into negotiations with an affiliate of Cyrq Energy ("Cyrq") related to the sale of the Soda Lake Facility. Subsequent to year end on January 30, 2015, the Company sold the Soda Lake Facility to Cyrq for net proceeds of \$8.5 million plus additional compensation if certain performance related or earn-out provisions are met over periods up to five years. The sale closed on January 30, 2015.

The following table summarizes the carrying value, write-down and ending balance of the Soda Lake Facility assets and liabilities at December 31, 2014:

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27) ASSETS HELD FOR SALE (Continued)

	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 26)	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

28) SHARE CAPITAL

a) Capital stock

At December 31, 2014, the Company had unlimited authorized common shares without par value and 467,263,361 common shares issued and outstanding (December 31, 2013 - 466,699,444).

During the year ended December 31, 2014, the Company issued 563,917 (2013 - 999,995) common shares to Company directors and employees as compensation, with a fair value of \$0.2 million (2013 - \$0.4 million). An additional 1,323,620 shares were awarded to Company employees (with a fair value of \$0.3 million) and are subject to shareholder and TSX approval and the fair value is included in accounts payable at December 31, 2014.

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 15,000,000. 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:

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28) SHARE CAPITAL (Continued)

	Number of options	Weighted average exercise price (C\$/option)
Outstanding, January 1, 2013	12,934,291	\$ 1.17
Granted	4,081,500	0.38
Forfeited and expired	(5,227,889)	1.46
Outstanding, December 31, 2013	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
Exercisable, December 31, 2014	8,964,738	\$ 0.61

As at December 31, 2014, incentive stock options represented 2.7% (December 31, 2013 - 2.5%) 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, 2014 was \$nil (December 31, 2013 - \$nil).

During the year ended December 31, 2014, 4,560,955 options were granted at a weighted average fair value of \$0.14 per option.

The share-based compensation for the years ended December 31, 2014 and 2013 has been recognized in the consolidated financial statements as follows:

	December 31, 2014	December 31, 2013
Balance sheets		
Geothermal development costs	\$ —	\$ 18
Hydro and wind development costs	23	16
	23	34
Statements of operations		
Cost of sales	28	34
General and administrative	551	625
Exploration	—	16
Foreign exchange	(5)	—
	574	675
Total amortization of the fair value of options	\$ 597	\$ 709

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

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Notes to the Consolidated Financial Statements

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28) SHARE CAPITAL (Continued)

	Year ended December 31	
	2014	2013
Expected dividend yield (%)	Nil	Nil
Average risk-free interest rate (%)	1.55%	1.57%
Expected life (years)	5.0	5.0
Expected volatility (%)	55%	55%
Expected rate of forfeiture (%)	5%	5%

29) NON-CONTROLLING INTEREST

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

	December 31, 2014	December 31, 2013
Non-current assets	\$ 378,232	\$ 425,467
Current assets	46,724	58,763
Non-current liabilities	(163,949)	(202,467)
Current liabilities	(34,582)	(37,077)
Net assets	226,425	244,686
Non-controlling interest %	33.4%	33.4%
Proportionate share of net assets	\$ 75,626	\$ 81,725
Revenue	\$ 65,902	\$ 59,327
Income (loss)	4,688	(16,256)
OCI (loss)	(21,025)	21,823
Total comprehensive income (loss)	(16,337)	5,567
Income (loss) allocated to non-controlling interest	1,566	(5,430)
OCI (loss) allocated to non-controlling interest	\$ (7,022)	\$ 7,289
Cash flow generated by operating activities	\$ 21,222	\$ 21,790
Cash flow used in investment activities	(6,821)	(7,653)
Cash flow used in financing activities	(20,948)	(19,884)
Effect of foreign exchange on cash	(2,245)	5,906
Net increase (decrease) in cash and cash equivalents	\$ (8,792)	\$ 159

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30) RELATED PARTY TRANSACTIONS

a) Revolving credit agreement

The Company entered into a revolving credit agreement with the Company's Chairman on July 25, 2011. Since 2011, the maturity date and borrowing amounts have been extended. At December 31, 2014, the borrowing amount under the facility is C\$20.0 million with a maturity date of March 31, 2016. The credit agreement makes funds available on a revolving basis at an interest rate of 8% per annum, compounded daily 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.

On July 7, 2014, the Company entered into a second temporary revolving credit agreement with the Company's Chairman with a borrowing amount of C\$23.4 million and a maturity date of the earlier of September 30, 2014 and three business days following the closing of a holding company financing. The credit agreement was on a revolving basis at an interest rate of 12% per annum, compounded daily and payable monthly and a drawdown fee in the amount of 1.5% of the amount advanced was payable in cash.

During the year ended December 31, 2014, the Company borrowed C\$51.5 million from the Company's Chairman under both facilities, and paid interest and draw down fees of C\$1.8 million (C\$1.6 million for the year ended December 31, 2013). The interest and draw down fees are capitalized towards the Jimmie Creek project as the amount borrowed was used to fund the construction of the project.

During the year, the amounts borrowed under the credit facilities were repaid in full and the second credit agreement was terminated. There are no amounts outstanding under the remaining credit agreement.

b) 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, 2014 and 2013 was as follows:

	December 31, 2014	December 31, 2013
Short-term employee benefits ^(a)	\$ 1,882	\$ 1,927
Termination benefits	226	655
Share-based compensation	362	493
Total	\$ 2,470	\$ 3,075

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

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31) FINANCIAL INSTRUMENTS

Fair Value

The carrying value of the Company's cash and cash equivalents, restricted cash, trade and other receivables, and accounts payable and accrued liabilities approximate fair value due to the relative short-term nature to maturity of these financial instruments. The carrying value of the bonds receivable and holding company loan facility (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 for 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).

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

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
	<u>\$ 4,037</u>	<u>\$ 2,893</u>	<u>\$ 593</u>	<u>\$ 7,523</u>
Liabilities:				
Embedded derivatives	\$ —	\$ 2,391	\$ 41,673	\$ 44,064
Currency and interest rate swaps	—	949	—	949
Other liabilities	—	—	5,778	5,778
Bonds payable	—	120,769	—	120,769
	<u>\$ —</u>	<u>\$ 124,109</u>	<u>\$ 47,451</u>	<u>\$ 171,560</u>

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31) FINANCIAL INSTRUMENTS (Continued)

As at December 31, 2013

	Level 1	Level 2	Level 3	Total
Assets:				
Short-term investments	\$ 3,102	\$ —	\$ —	\$ 3,102
Bonds receivable	—	3,433	—	3,433
Long-term receivable and other assets	—	—	973	973
	\$ 3,102	\$ 3,433	\$ 973	\$ 7,508
Liabilities:				
Embedded derivatives	\$ —	\$ 2,216	\$ 30,388	\$ 32,604
Currency and interest rate swaps	—	5,862	—	5,862
Bonds payable	—	124,123	—	124,123
	\$ —	\$ 132,201	\$ 30,388	\$ 162,589

The amounts included in Level 2 are for the warrants held in Greenbriar, bonds receivable, currency and interest rate swaps, embedded derivatives, and the bonds payable. The fair value of the warrants in Greenbriar are valued using the Black-Scholes model with a discount rate of 1.34%, expected life of 4.75 years and a volatility of 45.6%. 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 discounted at observable market interest rates. The fair value of the embedded derivatives and bonds payable is determined using observable market interest rates (1.26% to 4.03%) 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 asset recorded as Level 3 in the fair value hierarchy, long-term receivables and other assets, represents earn-out payments related to the partial sale of the Company's interest in DGP. The earn-out payments are based on generation targets for each of the next two years. Dokie 1 did not exceed the generation target for 2014 which resulted in a write-down of \$0.3 million. The fair value is based on a 50% probability of the generation targets being met in each remaining year, discounted at a rate of 6%.

The liability amounts included in Level 3 are for embedded derivatives held at HS Orka that relate to a contract that expires in 2026 and the contingent liability (recognized in other liabilities) held by the Company relates to the purchase of Shannon (note 11). 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, 2014, projected forward aluminum prices for the period from January 1, 2025 to May 28, 2026 are estimated to be within a range of \$2,329 to \$2,399 per tonne compared to a range of \$2,482 to \$2,610 at December 31, 2013. The contingent liability included in other liabilities, is calculated based on the nameplate capacity of the Shannon wind project, and payable on financial close. The maximum payment is \$8.0 million less amounts paid and other adjustments resulting in a net fee of \$6.5 million, currently valued at \$5.8 million based on a 90% probability of financial close, discounted at a rate of 6.5%.

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

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31) FINANCIAL INSTRUMENTS (Continued)

	December 31, 2013	Foreign exchange and unrealized loss	Settlement	December 31, 2014
Liabilities:				
Embedded derivatives	\$ (30,388)	\$ (15,428)	\$ 4,143	\$ (41,673)
	\$ (30,388)	\$ (15,428)	\$ 4,143	\$ (41,673)

	December 31, 2012	Foreign exchange and unrealized loss	Settlement	December 31, 2013
Liabilities:				
Embedded derivatives	\$ (3,737)	\$ (28,437)	\$ 1,786	\$ (30,388)
	\$ (3,737)	\$ (28,437)	\$ 1,786	\$ (30,388)

The contingent liability is valued at \$5.8 million which is consistent with the initial value recognized less an installment payment made of \$0.7 million in 2014.

Gains and losses on the bonds receivable, currency and interest rate swap at HS Orka, embedded derivatives and bonds payable were recognized in the statement of operations. There have been no transfers between levels during the year.

Changes in one or more of the Level 3 inputs for the embedded derivative to reasonably possible alternative assumptions would change the fair value measurement significantly, refer to market risk section below for quantification of the interest rate and aluminum price sensitivities on the embedded derivatives. Changes to the fair value of the embedded derivatives would be recognized in the statement of operations.

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 53% (2013 - 57%) of the Company's revenue is attributable to sales transactions with three 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 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.

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

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31) FINANCIAL INSTRUMENTS (Continued)

	December 31, 2014	December 31, 2013
Cash and cash equivalents	\$ 63,216	\$ 41,743
Restricted cash	9,672	4,500
Short-term investments	3,141	3,102
Trade and other receivables	11,414	10,584
Long-term receivables and other assets	14,540	5,247
Bonds receivable	2,609	3,433
Total	\$ 104,592	\$ 68,609

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

	December 31, 2014	December 31, 2013
NV Energy	\$ 427	\$ 431
Iceland industrial and power companies	4,313	4,211
Iceland residential customers	4,977	3,886
Receivables from TMGP, DGP and JCLP	883	1,013
Other receivables	814	1,043
Total	\$ 11,414	\$ 10,584

At December 31, 2014, \$0.7 million of trade and other receivables were more than 90 days overdue and a total write-off of impaired receivables of \$0.2 million was recorded during the year.

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they become due. The Company manages liquidity risk by ensuring that it has sufficient cash, credit facilities and other financial resources available to meet its obligations. The Company forecasts cash flows for a period of 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. The Company's exposure to liquidity risk and management of this risk has not changed from the previous year.

At December 31, 2014 and 2013, the Company's current liabilities consisted of trade and other payables, current portions of debt and other financial instruments, and the contingent liability related to the purchase of Shannon. The Company's cash and cash equivalents together with projected project cash flow and available credit facility over the next 12 months are expected to be sufficient to pay these current liabilities.

The Company believes that HS Orka, TMGP and DGP 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 long-term bond liabilities of Magma Energy Sweden A.B., assumed in conjunction with the acquisition of HS Orka that expire in 2016.

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31) FINANCIAL INSTRUMENTS (Continued)

The Company's believes the cash flows from its investments in TMGP and DGP (and future JCLP cash flows) are sufficient to pay its interest on the holding company loan facility over the term of the loan.

The Company has cash available to fund its expected equity contribution for the Shannon project.

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

December 31, 2014	Carrying amount	Contractual cash flows	Less than one year	1-2 years	2-5 years	After 5 years
Accounts payable and accrued liabilities	\$ 18,279	\$ 18,279	\$ 18,279	\$ —	\$ —	\$ —
Long-term debt	290,130	371,823	29,849	158,115 ^(a)	65,005	118,854
Embedded derivatives	44,064	44,064	4,898	4,866	13,796	20,504
Currency and interest rate swaps	949	806	539	512	576	(821)
Total	\$ 353,422	\$ 434,972	\$ 53,565	\$ 5,378	\$ 79,377	\$ 138,537

(a) Includes the maturities of the long-term bond liabilities, which the Company is currently in the process of refinancing.

The contingent payment related to the purchase of Shannon will be paid upon closing of construction financing which is expected in early 2015. This balance is not reflected in the table above.

Market risk

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

a) Interest rate risk

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

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, 2014	December 31, 2013
Bonds receivable	\$ 2,609	\$ 3,433
Bonds payable	(120,769)	(124,123)
HS Orka fixed rate loans	(14,229)	(20,626)

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31) FINANCIAL INSTRUMENTS (Continued)

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)	
	100 BPS increase	100 BPS decrease
December 31, 2014		
Bonds receivable	\$ 45	\$ (47)
Bonds payable	(1,956)	2,007
HS Orka fixed rate loans	(142)	142
Total	\$ (2,053)	\$ 2,102

Financial instruments with floating interest rate risk

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

	December 31, 2014	December 31, 2013
Cash and cash equivalents	\$ 63,216	\$ 41,743
Restricted cash	9,672	4,500
Holding company loan facility	(74,129)	—
HS Orka variable rate loans	(81,003)	(102,622)

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.

	Net income/equity increase (decrease)	
	100 BPS increase	100 BPS decrease
December 31, 2014		
Cash and cash equivalents	\$ 632	\$ (632)
Restricted cash	97	(97)
Holding company loan facility	(197)	291
HS Orka variable rate loans	(810)	810
Total	\$ (278)	\$ 372

Derivative financial instruments

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

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31) FINANCIAL INSTRUMENTS (Continued)

	December 31 2014	December 31 2013
Embedded derivative liabilities	\$ (44,064)	\$ (32,604)
Currency and interest rate swaps	(949)	(5,862)

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)	
	100 BPS increase	100 BPS decrease
December 31, 2014		
Embedded derivative liabilities	\$ (408)	\$ 440
Currency and interest rate swaps	(4,847)	4,847
Total	\$ (5,255)	\$ 5,287

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 and Japanese Yen. The 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:

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31) FINANCIAL INSTRUMENTS (Continued)

December 31, 2014	ISK	CHF	EUR	CAD	JPY	SEK	USD	Other currencies	Total
Cash and cash equivalents	\$ 23,170	\$ 1	\$ 149	\$ 37,446	\$ —	\$ —	\$ 2,513	\$ 6	\$ 63,285
Restricted cash	—	—	—	5,172	—	—	4,500	—	9,672
Short-term investments	3,141	—	—	1,180	—	—	—	—	4,321
Trade and other receivables	8,682	—	—	1,387	—	—	1,769	2	11,840
Long-term receivable and other assets	3,102	—	—	1,024	—	—	—	2	4,128
Bonds receivable	2,609	—	—	—	—	—	—	—	2,609
Other investments	212	—	—	—	—	—	—	—	212
Accounts payable and accrued liabilities	(12,358)	—	51	(2,722)	—	(13)	(3,224)	(14)	(18,280)
Other liabilities	—	—	—	—	—	—	5,778	—	5,778
Embedded derivatives	—	—	—	—	—	—	44,064	—	44,064
Long-term debt	(67,606)	(25,685)	(16,715)	(80,744)	(7,462)	(4,273)	(85,290)	(2,355)	(290,130)
Currency and interest rate swaps	—	—	—	(949)	—	—	—	—	(949)
Net foreign exchange rate risk	\$ (39,048)	\$ (25,684)	\$ (16,515)	\$ (38,206)	\$ (7,462)	\$ (4,286)	\$ (29,890)	\$ (2,359)	\$ (163,450)

A 10% strengthening or weakening of the functional currency of the entity and its subsidiary against the following currencies at December 31, 2014 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.

	Net income increase (decrease)	
	Strengthening	Weakening
ISK	\$ 6,289	\$ (6,289)
CHF	2,092	(2,092)
EUR	1,328	(1,328)
CAD	598	(598)
USD	9,612	(9,612)
JPY	631	(631)
Other currencies	535	(535)
Total	\$ 21,085	\$ (21,085)

c) Commodity price risk

The Company is exposed to electricity and aluminum price risk. At the Soda Lake facility, all power currently produced is sold to one customer under the terms of a 30 year PPA which consists of a fixed price component and an escalating price component. Because all power produced will be sold at rates

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31) FINANCIAL INSTRUMENTS (Continued)

specified by the PPA until 2020, revenue from the Soda Lake facility is not exposed to significant commodity price risk.

HS Orka has entered into 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 bonds 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, 2014 would have respectively increased or decreased net income by \$23.5 million.

TMGP and DGP are not subject to significant commodity price risk as power is primarily sold at a rate specified by a PPA with BC Hydro.

32) 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 properties 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.

33) 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:

2015	\$	653
2016		647
2017		658
2018		—
2019		—
Thereafter		—
Total commitments	\$	1,958

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34) INCOME TAXES

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

	Year ended December 31, 2014	Year ended December 31, 2013
Current income tax expense on earnings		
Current year	\$ —	\$ (364)
Adjustment for prior years	—	—
	—	(364)
Deferred income tax recovery (expense):		
Current year	(2,582)	3,494
Adjustment for prior years	(1,981)	396
	(4,563)	3,890
Income tax recovery (expense)	\$ (4,563)	\$ 3,526

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:

	Year ended December 31, 2014	Year ended December 31, 2013
Canadian statutory federal and provincial income tax rates	26.00%	25.75%
Loss before income tax	\$ (30,211)	\$ (119,787)
Income tax benefit computed at Canadian statutory rates	7,855	30,845
Permanent items and other	14,237	(1,094)
Non taxable portion of capital gains	—	3,064
Change in deferred income tax assets not recognized	(23,497)	(30,570)
Change in estimates in respect of prior year	(1,981)	396
Foreign tax rates different from statutory rate	(348)	857
Utilized deferred tax assets or expired losses	(438)	—
Other	(391)	28
	\$ (4,563)	\$ 3,526

The applicable federal and provincial tax rate in Canada for the year ended December 31, 2014 was 26.00%, which reflects the legislated BC tax rate increase from 10% to 11% effective April 1, 2013.

The significant components of the Company's deferred income taxes as at December 31, 2014 and December 31, 2013 are as follows:

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34) INCOME TAXES (Continued)

	December 31, 2014		December 31, 2013		
Deferred income tax assets					
Non-capital losses	\$	19,902	\$	7,990	
Intangible assets		1,541		1,419	
Interest swap contracts		87		1,172	
Embedded derivatives		8,813		6,521	
Below market contract - HS Orka		3,585		4,785	
Pension fund obligation		2,351		2,538	
Assets held for sale		1,779		—	
Other items		822		6,500	
Total deferred income tax assets	\$	38,880	\$	30,925	
Deferred income tax liabilities					
Plant and equipment	\$	(13,928)	\$	(13,630)	
Development costs		(11,784)		(15,904)	
Investment in partnerships		(22,074)		(8,107)	
Investment in other associates		(3,126)		(3,518)	
Other items		(3,648)		(2,130)	
Total deferred income tax liabilities	\$	(54,560)	\$	(43,289)	
Net deferred income tax liabilities	\$	(15,680)	\$	(12,364)	
	Opening balance	Recognized in net income	Recognized in equity	Foreign exchange translation	Closing balance
Non-capital losses	\$ 7,990	\$ 12,863	\$ —	\$ (951)	\$ 19,902
Intangible assets	1,419	291	—	(169)	1,541
Interest rate swaps	1,172	(945)	—	(140)	87
Embedded derivatives	6,521	3,068	—	(776)	8,813
Below market contract - HS Orka	4,785	(630)	—	(570)	3,585
Pension fund obligation	2,538	115	—	(302)	2,351
Assets held for sale	—	1,779	—	—	1,779
Plant and equipment	(13,630)	(1,921)	—	1,623	(13,928)
Development costs	(15,904)	2,227	—	1,893	(11,784)
Investment in partnerships	(8,107)	(14,933)	—	966	(22,074)
Investment in other associates	(3,518)	(27)	—	419	(3,126)
Other items	4,370	(6,451)	(226)	(519)	(2,826)
Deferred tax asset (liability)	\$ (12,364)	\$ (4,564)	\$ (226)	\$ 1,474	\$ (15,680)

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

34) INCOME TAXES (Continued)

Of the total deferred income tax assets recognized as at December 31, 2014, all of the \$38.9 million (December 31, 2013 - \$30.6 million) is expected to be recovered after more than 12 months.

Of the total deferred income tax liabilities recognized as at December 31, 2014, \$54.6 million (December 31, 2013 - \$42.2 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 the following deferred tax assets for the following deductible temporary differences:

	December 31, 2014	December 31, 2013
Capital losses	\$ 31,055	\$ —
Non-capital losses	169,862	134,266
Other deductible temporary differences	62,706	44,212
	\$ 263,623	\$ 178,478

As at December 31, 2014, the Company had non-capital losses for income tax purposes of approximately \$247.8 million (December 31, 2013 - \$194.2 million), expiring in various years to 2034 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:

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34) INCOME TAXES (Continued)

	Canada	US	Chile	Sweden	Iceland	Italy	Peru	Total
2015	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 239	\$ 239
2016	—	—	—	—	—	—	164	164
2017	—	—	—	—	—	—	294	294
2018	—	—	—	—	12,151	—	—	12,151
2019	—	—	—	—	1,444	—	—	1,444
2020	—	—	—	—	5,263	—	—	5,263
2021	—	—	—	—	3,382	—	—	3,382
2022	—	—	—	—	5,198	—	—	5,198
2023	—	—	—	—	147	—	—	147
2024	—	—	—	—	—	—	—	—
2025	8,290	—	—	—	—	—	—	8,290
2026	2,264	—	—	—	—	—	—	2,264
2027	15,391	—	—	—	—	—	—	15,391
2028	19,845	2,502	—	—	—	—	—	22,347
2029	26,496	7,208	—	—	—	—	—	33,704
2030	18,842	4,595	—	—	—	—	—	23,437
2031	8,415	4,511	—	—	—	—	—	12,926
2032	4,346	7,063	—	—	—	—	—	11,409
2033	41,735	2,261	—	—	—	—	—	43,996
2034	18,102	1,219	—	—	—	—	—	19,321
Without expiry	—	—	4,415	21,145	—	852	—	26,412
Total	\$163,726	\$ 29,359	\$ 4,415	\$ 21,145	\$ 27,585	\$ 852	\$ 697	\$247,779

The Company also has capital losses of \$31.1 million (2013 - \$nil), which do not expire.

35) SEGMENTED DISCLOSURES

The Company has four operating segments:

- The development of hydro, wind, solar and geothermal properties;
- Geothermal operations;
- Hydro operations; and
- Wind operations.

Consolidated revenues during the years ended December 31, 2014 and 2013 were generated from HS Orka (including the Svartsengi and Reykjanes plants) in Iceland and the Soda Lake plant in the USA. Revenues and results from hydro operations (TMGP), wind operations (DGP), Blue Lagoon and the geothermal investment properties are included in equity income.

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For the years ended December 31, 2014 and 2013

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

35) SEGMENTED DISCLOSURES (Continued)

	December 31, 2014				
	Construction and development	Geothermal	Assets 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 investment	22,525	—	—	—	22,525
Other assets	2	—	—	—	2
	22,532	—	—	—	22,532
ITALY					
Equity investment	995	—	—	—	995
PERU					
Equity investment	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	—	20,834	—	—	20,834
Other investments	—	2,587	—	—	2,587
Other assets	—	21,046	—	—	21,046
	57,055	377,659	—	—	434,714
Total Assets	\$ 198,741	\$ 389,225	\$ 26,977	\$ 8,269	\$ 623,212

Alterra Power Corp.

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

35) SEGMENTED DISCLOSURES (Continued)

	December 31, 2013				
	Construction and development	Geothermal	Assets Hydro	Wind	Total
CANADA					
Current assets	\$ 9,916	\$ —	\$ —	\$ —	9,916
Plant and equipment	75	—	—	—	75
Geothermal development costs	297	—	—	—	297
Equity investments	—	—	39,879	9,648	49,527
Hydro development costs	17,004	—	—	—	17,004
Wind development costs	18,942	—	—	—	18,942
Other assets	5,179	—	—	—	5,179
	51,413	—	39,879	9,648	100,940
USA					
Current assets	25	1,029	—	—	1,054
Plant and equipment	—	12,000	—	—	12,000
Geothermal development costs	4,547	—	—	—	4,547
Equity investments	1,193	—	—	—	1,193
Other assets	83	11	—	—	94
	5,848	13,040	—	—	18,888
CHILE					
Current assets	212	—	—	—	212
Equity investments	24,478	—	—	—	24,478
Other assets	3	—	—	—	3
	24,693	—	—	—	24,693
ITALY					
Equity investments	1,466	—	—	—	1,466
PERU					
Current assets	9	—	—	—	9
Plant and equipment	1	—	—	—	1
Geothermal development costs	1,557	—	—	—	1,557
Equity investments	729	—	—	—	729
	2,296	—	—	—	2,296
ICELAND					
Current assets	104	54,484	—	—	54,588
Plant and equipment	8	319,884	—	—	319,892
Geothermal development costs	63,937	—	—	—	63,937
Equity investments	—	20,985	—	—	20,985
Other investments	—	2,150	—	—	2,150
Other assets	—	23,773	—	—	23,773
	64,049	421,276	—	—	485,325
Total Assets	\$ 149,765	\$ 434,316	\$ 39,879	\$ 9,648	\$ 633,608

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

35) SEGMENTED DISCLOSURES (Continued)

	Year ended December 31, 2014				
	Construction and development	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 (expenses)	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)

Alterra Power Corp.

Notes to the Consolidated Financial Statements

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

35) SEGMENTED DISCLOSURES (Continued)

	Year ended December 31, 2013					
	Construction and development	Geothermal	Hydro	Wind	Solar ^(a)	Total
Revenues	\$ —	\$ 63,872	\$ —	\$ —	\$ —	\$ 63,872
Cost of sales	—	(50,851)	—	—	—	(50,851)
Gross profit	—	13,021	—	—	—	13,021
Other income (expenses)						
General and administrative	(9,993)	(3,303)	—	—	—	(13,296)
General development expenses	(672)	—	—	—	—	(672)
Share of results of equity investments	(169)	3,166	9,179	1,323	48	13,547
Finance income	—	3,044	—	—	—	3,044
Finance costs	(1,551)	(8,219)	—	—	—	(9,770)
Change in the fair value of bonds payable	—	2,699	—	—	—	2,699
Change in the fair value of derivatives	—	(21,710)	—	—	—	(21,710)
Foreign exchange gain (loss)	(14,042)	12,850	—	—	—	(1,192)
Write-down of development costs and plant and equipment	(98,424)	(22,080)	—	—	—	(120,504)
Write-off of goodwill	(4,178)	—	—	—	—	(4,178)
Gain on sale of investments	—	—	—	17,554	2,792	20,346
Other income (expenses)	(1,122)	—	—	—	—	(1,122)
	(130,151)	(33,553)	9,179	18,877	2,840	(132,808)
Income (loss) before income tax	(130,151)	(20,532)	9,179	18,877	2,840	(119,787)
Income tax expense	—	3,526	—	—	—	3,526
Income (loss) for the year	\$ (130,151)	\$ (17,006)	\$ 9,179	\$ 18,877	\$ 2,840	\$ (116,261)

(a) The results for the solar operating segment include ABW Solar, a solar generation project located in Ontario, Canada, that was acquired by the Company on August 23, 2013 and subsequently sold on November 29, 2013, refer to note 38.

36) COST OF SALES

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

	Year ended December 31, 2014	Year ended December 31, 2013
Employee benefit expense	\$ (11,243)	\$ (10,489)
Depreciation, amortization and accretion	(13,092)	(13,869)
Cost of production	(29,525)	(26,493)
	\$ (53,860)	\$ (50,851)

Alterra Power Corp.

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37) GENERAL AND ADMINISTRATIVE

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

	Year ended December 31, 2014	Year ended December 31, 2013
Employee benefit expense	\$ (4,901)	\$ (6,052)
Investor relations	(83)	(131)
Professional fees	(1,395)	(1,337)
Depreciation and amortization	(153)	(261)
Other expenses	(3,833)	(5,515)
	\$ (10,365)	\$ (13,296)

38) INVESTMENT IN ABW SOLAR

On August 23, 2013 the Company acquired a 10% interest in ABW Solar, a 50 MW solar generation project in Ontario through an initial investment of \$7.1 million. On November 29, 2013 the Company sold its 10% interest to a consortium led by Fiera Axiom for proceeds of \$9.8 million.

The Company accounted for the investment as an equity investment and as a result of the sale recorded the following:

Proceeds from sale	\$	9,760
Initial investment		7,070
Share of comprehensive income		48
Foreign exchange		(150)
Gain on sale	\$	2,792

39) SUPPLEMENTARY CASH FLOW INFORMATION

Change in non-cash working capital items

	December 31, 2014	December 31, 2013
Trade and other receivables	\$ (2,609)	\$ 1,701
Inventories	(146)	5
Prepaid expenses	(331)	(52)
Accounts payable and accrued liabilities	954	1,349
	\$ (2,132)	\$ 3,003

Allocation of cash and cash equivalents

	December 31, 2014	December 31, 2013
Corporate and other	\$ 38,158	\$ 7,893
HS Orka	25,058	33,850
	\$ 63,216	\$ 41,743