Alterra
POWER CORP

Condensed Consolidated Interim Financial Statements
For the Three Months Ended March 31, 2016 and 2015
Unaudited

(expressed in United States dollars)

Alterra Power Corp.

Condensed Consolidated Balance Sheets (Unaudited)

(expressed in thousands of United States dollars)

	Note	March 31, 2016	December 31, 2015
Assets			
Current assets			
Cash and cash equivalents	18	**$ 9,571**	$ 10,345
Restricted cash	3	**5,114**	10,766
Short-term investments		**2,563**	7,670
Trade and other receivables		**11,418**	12,354
Inventories		**4,008**	3,716
Current portion of bonds receivable		**639**	596
Prepaid expenses		**185**	229
		33,498	45,676
Investment in associates	4	**168,370**	174,457
Bonds receivable		**1,039**	1,491
Long-term receivable and other assets		**5,933**	5,518
Prepaid lease and royalty fee		**4,126**	3,900
Plant and equipment		**307,971**	288,817
Development costs	11	**61,939**	58,229
Deferred income tax		**3,089**	2,898
Other intangible assets		**1,558**	1,330
Goodwill		**11,272**	10,698
		565,297	547,338
Total assets		**$ 598,795**	$ 593,014
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**$ 12,521**	$ 13,660
Current portion of long-term debt	12	**140,904**	135,386
Current portion of embedded derivatives		**8,403**	8,362
Current portion of interest rate swaps		**838**	847
Other liabilities	13	**5,125**	10,689
		167,791	168,944
Long-term debt	12	**123,266**	120,153
Pension fund obligations		**16,687**	15,779
Embedded derivatives		**57,845**	57,348
Interest rate swaps		**3,673**	2,292
Below market contracts		**16,324**	15,908
Deferred income tax		**15,195**	13,340
		232,990	224,820
Total liabilities		**$ 400,781**	$ 393,764

Alterra Power Corp.

Condensed Consolidated Balance Sheets (Unaudited)

(expressed in thousands of United States dollars)

	Note	March 31, 2016	December 31, 2015
Equity			
Share capital	14	**$ 362,910**	$ 362,905
Contributed surplus		**6,744**	6,387
Accumulated other comprehensive loss		**(22,397)**	(20,628)
Deficit		**(226,544)**	(222,740)
Total equity attributable to owners of the Company		**120,713**	125,924
Non-controlling interest		**77,301**	73,326
Total equity		**198,014**	199,250
Total liabilities and equity		**$ 598,795**	$ 593,014

Financial instruments - liquidity risk (note 16)

Subsequent events (note 3)

Approved by the Board of Directors and authorized for issue on May 10, 2016

"Ross Beaty"
Ross Beaty
(Director)

"James Bruce"
James Bruce
(Director)

Alterra Power Corp.

Condensed Consolidated Statements of Operations
For the three months ended March 31, 2016 and 2015
(Unaudited)

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

	Note	Three months ended March 31, 2016	2015
Revenues			
Energy sales		$ **14,930**	$ 16,401
Cost of sales		**(11,076)**	(11,360)
Gross profit		**3,854**	5,041
Other income (expenses)			
General and administrative		**(2,243)**	(2,341)
General development expenses		**(268)**	(64)
Share of results of equity investments	5-10	**(1,495)**	(970)
Finance income		**141**	545
Finance costs		**(2,899)**	(3,440)
Change in the fair value of bonds payable		**(2,129)**	(438)
Change in the fair value of derivatives		**2,873**	(6,813)
Foreign exchange gain (loss)		**2,323**	(9,235)
Other income (loss)		**(1,098)**	137
		(4,795)	(22,619)
Loss before income tax		**(941)**	(17,578)
Income tax recovery (expense)		**(1,088)**	1,307
Loss for the period		$ **(2,029)**	$ (16,271)
Attributable to:			
Owners of the Company		$ **(3,773)**	$ (14,880)
Non-controlling interest		**1,744**	(1,391)
		$ **(2,029)**	$ (16,271)
Weighted average shares outstanding (thousands)			
Basic and diluted		**468,662**	467,263
Loss per share attributable to owners of the Company			
Basic and diluted		$ **(0.01)**	$ (0.03)

Alterra Power Corp.

Condensed Consolidated Statements of Comprehensive Loss
For the three months ended March 31, 2016 and 2015
(Unaudited)

(expressed in thousands of United States dollars)

	Three months ended March 31,	
	2016	2015
Loss for the period	**$ (2,029)**	$ (16,271)
Other comprehensive income (loss)		
Items that may be reclassified to profit and loss:		
Effective portion of change in fair value of cash flow hedges, net of tax	**(8,820)**	(5,118)
Net change in fair value of cash flow hedges transferred to statement of operations, net of tax	**976**	(277)
Foreign currency translation adjustment	**9,062**	(10,722)
Change in fair value of available-for-sale investments	**195**	(24)
Items that will never be reclassified to profit and loss:		
Defined benefit plan actuarial losses	**(60)**	(81)
Tax on items that will never be reclassified to profit and loss	**13**	17
Comprehensive loss for the period	**$ (663)**	$ (32,476)
Attributable to:		
Owners of the Company	**$ (5,573)**	$ (26,719)
Non-controlling interest	**4,910**	(5,757)
Comprehensive loss for the period	**$ (663)**	$ (32,476)

Alterra Power Corp.

Condensed Consolidated Statements of Cash Flows
For the three months ended March 31, 2016 and 2015
(Unaudited)

(expressed in thousands of United States dollars)

	Note	Three months ended March 31, 2016	2015
Operating activities			
Loss for the period		**$ (2,029)**	$ (16,271)
Items not affecting cash			
Amortization, depreciation, depletion and accretion		**3,032**	2,731
Amortization of below market contracts		**(421)**	(420)
Share of results of equity-accounted investees		**1,495**	970
Change in fair value of bonds payable		**2,129**	438
Change in fair value of derivatives		**(2,873)**	6,813
Finance income and costs, net		**2,758**	2,895
Unrealized foreign exchange (gain) loss		**(2,323)**	9,235
Deferred income tax expense (recovery)		**1,088**	(1,307)
Stock-based compensation		**362**	51
Other		**1,098**	(59)
Distribution received from Toba Montrose GP	5	**1,428**	—
Distribution received from Dokie GP	6	**2,356**	513
Distribution received from Shannon Group LLC	8	**87**	—
Interest received		**23**	357
Interest paid		**(3,207)**	(2,147)
Change in non-cash working capital items	18	**(1,136)**	(56)
Cash generated by operating activities		**3,867**	3,743
Financing activities			
Repayment of loans		**(3,347)**	(3,516)
Cash used in financing activities		**(3,347)**	(3,516)
Investing activities			
Purchase of plant and equipment		**(6,284)**	(6,849)
Wind development costs		**(291)**	(14,495)
Proceeds from sale of Soda Lake		**—**	8,073
Earn-out payment related to 2013 partial sale of Dokie GP		**546**	—
Return of capital from Shannon Group LLC	8	**594**	—
Net proceeds from sale (acquisition) of short-term investments		**4,673**	(5,300)
Restricted cash		**—**	4,829
Other		**(658)**	(203)
Cash used in investing activities		**(1,420)**	(13,945)
Effect of foreign exchange on cash		**126**	(3,818)
Decrease in cash and cash equivalents		**(774)**	(17,536)
Cash and cash equivalents - beginning of period		**10,345**	63,216
Cash and cash equivalents - end of period		**$ 9,571**	$ 45,680

Supplementary cash information (note 18)

Alterra Power Corp.

Condensed Consolidated Statements of Changes in Equity
For the three months ended March 31, 2015 and 2014
(Unaudited)

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

		Common shares			Accumulated other comprehensive income (loss)			
	Note	Number of shares	Amount	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Non - controlling interest	Total equity
Balance, January 1, 2015		467,263,361	$ 362,570	$ 5,733	$ (24,192)	$ (205,723)	$ 75,626	$ 214,014
Value assigned to options granted	14	—	—	51	—	—	—	51
Foreign currency translation adjustment		—	—	—	(6,377)	—	(4,345)	(10,722)
Dividend from HS Orka hf		—	—	—	—	—	(800)	(800)
Effective portion of change in fair value of cash flow hedge, net of tax		—	—	—	(5,118)	—	—	(5,118)
Net change in fair value of cash flow hedge transferred to statement of operations, net of tax		—	—	—	(277)	—	—	(277)
Change in fair value of available-for-sale investments		—	—	—	(24)	—	—	(24)
Defined benefit plan actuarial losses, net of taxes		—	—	—	—	(43)	(21)	(64)
Loss for the period		—	—	—	—	(14,880)	(1,391)	(16,271)
Balance, March 31, 2015		467,263,361	$ 362,570	$ 5,784	$ (35,988)	$ (220,646)	$ 69,069	$ 180,789
Balance, January 1, 2016		468,652,409	$ 362,905	$ 6,387	$ (20,628)	$ (222,740)	$ 73,326	$ 199,250
Options exercised	14	17,294	5	(5)	—	—	—	—
Value assigned to options granted	14	—	—	362	—	—	—	362
Foreign currency translation adjustment		—	—	—	5,880	—	3,182	9,062
Dividend from HS Orka hf		—	—	—	—	—	(935)	(935)
Effective portion of change in fair value of cash flow hedges, net of tax		—	—	—	(8,820)	—	—	(8,820)
Net change in fair value of cash flow hedges transferred to statement of operations, net of tax		—	—	—	976	—	—	976
Change in fair value of available-for-sale investments		—	—	—	195	—	—	195
Defined benefit plan actuarial losses, net of taxes		—	—	—	—	(31)	(16)	(47)
Income (loss) for the period		—	—	—	—	(3,773)	1,744	(2,029)
Balance, March 31, 2016		**468,669,703**	**$ 362,910**	**$ 6,744**	**$ (22,397)**	**$ (226,544)**	**$ 77,301**	**$ 198,014**

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

1) DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

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

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

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

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

Location	Project	Net ownership	Technology
Canada	Bute Inlet	100%	Hydro
	Dokie 2	51%	Wind
	Tahumming	100%	Hydro
	South Toba projects	100%	Hydro
	Coastal wind projects	100%	Wind
	Multiple early stage projects	100%	Hydro
Iceland	Reykjanes 3-4 (potential expansion)	67%	Geothermal
	Eldvörp / Krýsuvík / Trölladyngja	67%	Geothermal
	Búlandsvirkjun	33%	Hydro
	Hvalá	39%	Hydro
	Brúarvirkjun	67%	Hydro
	Skúfnavatnavirkjun	39%	Hydro
	Multiple early stage projects	67%	Geothermal/Hydro
USA	Soda Lake Solar	100%	Solar
	Multiple wind projects	100%	Wind
Chile	Mariposa	30%	Geothermal
Peru	Multiple early stage projects	30%	Geothermal
Italy	Mensano / Roccastrada	45%	Geothermal

The recovery of the carrying values of the Company’s projects and properties is typically dependent upon the successful completion or sale of the projects. The successful completion of a project is typically dependent upon receiving environmental and operating permits, completing contractual arrangements for the development and construction of the project, entering into a power purchase agreement or financial hedge for power sales, obtaining any necessary project financing, and the long-term generation and sale of electricity on a profitable basis. The carrying value of the Company’s projects and properties represents

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

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

net costs to date less amounts amortized and/or written off or fair value allocated to assets on acquisition, and does not necessarily represent current or future values.

At March 31, 2016 the Company has a working capital deficit due to its holding company bonds (Sweden) of $122.8 million being classified as a current liability. These bonds were issued in conjunction with the acquisition of HS Orka hf ("HS Orka") and mature in July and December 2016. The Company has plans to retire the bonds through refinancings in 2016 (note 12) for which the Company has retained advisors and is currently in discussions.

2) BASIS OF PRESENTATION

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with *International Accounting Standards (“IAS”) 34, Interim Financial Reporting* and follow the same accounting policies and methods of application as our most recent annual financial statements and do not include all of the information required for full annual financial statements. Accordingly, they should be read in conjunction with our consolidated financial statements for the year ended December 31, 2015. The policies applied in these condensed consolidated interim financial statements are based on International Financial Reporting Standards (“IFRS”). These condensed consolidated interim financial statements were approved by the Board of Directors on May 10, 2016.

3) RESTRICTED CASH

As at March 31, 2016, there is $5.1 million in restricted cash (December 31, 2015 - $10.8 million). HS Orka has $4.5 million of its cash balance dedicated to loan payments in accordance with a collateral agreement with HS Orka’s lenders (December 31, 2015 – $4.5 million). The remaining $0.6 million was held in escrow for the Company's holding company bondholders (Sweden), but subsequently was released to the Company on April 22, 2016. At December 31, 2015, HS Orka held an additional $5.7 million comprised of a portion of the grants related to HS Orka's deep drilling program, which was distributed to HS Orka's drilling program partners during the period.

4) INVESTMENT IN ASSOCIATES

	Note		March 31, 2016		December 31, 2015
Toba Montrose GP	5	$	**16,644**	$	21,961
Dokie GP	6		**6,651**		8,020
Jimmie Creek LP	7		**36,195**		34,034
Shannon Group LLC	8		**57,466**		62,392
Blue Lagoon	9		**26,420**		24,484
Geothermal development projects:					
Mariposa	10		**19,793**		18,579
Peru concessions	10		**2,139**		2,007
Italy	10		**785**		803
Other investments			**2,277**		2,177
Total		$	**168,370**	$	174,457

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

5) INVESTMENT IN TOBA MONTROSE GP

The continuity of the Company's investment in the Toba Montrose General Partnership ("Toba Montrose GP") is as follows:

Investment in Toba Montrose GP		
Investment at January 1, 2016	$	21,961
Share of comprehensive loss		(4,945)
Distributions received		(1,428)
Foreign exchange		1,056
Investment at March 31, 2016	**$**	**16,644**

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

		March 31, 2016		December 31, 2015
Cash and cash equivalents	**$**	**7,701**	$	17,562
Trade and other receivables		**1,270**		1,798
Prepaid expenses		**3,323**		3,018
Plant and equipment		**421,127**		396,710
Intangible assets		**5,713**		5,572
Other assets		**1,295**		1,215
		440,429		425,875
Accounts payable and accrued liabilities		**3,587**		4,757
Long-term debt		**340,365**		319,359
Interest rate swaps		**50,675**		42,859
		394,627		366,975
Net assets (100%)	**$**	**45,802**	$	58,900
Share of net assets (40%)		**18,321**		23,560
Purchase price adjustments		**(1,677)**		(1,599)
Share of net assets (40%)	**$**	**16,644**	$	21,961

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

5) INVESTMENT IN TOBA MONTROSE GP (Continued)

		Three months ended March 31, 2016		Three months ended March 31, 2015
Revenue	$	**2,204**	$	4,752
Cost of sales		**(1,238)**		(1,907)
Depreciation and amortization		**(2,361)**		(2,588)
Interest expense		**(5,147)**		(5,724)
Other expenses		**(1,126)**		(1,332)
Net loss (100%)	$	**(7,668)**	$	(6,799)
Share of net loss (40%)		**(3,067)**		(2,720)
Purchase price adjustments		**12**		28
Share of net loss (40%)	$	**(3,055)**	$	(2,692)

		Three months ended March 31, 2016		Three months ended March 31, 2015
Other comprehensive loss (100%)	$	**(4,725)**	$	(5,570)
Share of other comprehensive loss (40%)		**(1,890)**		(2,228)
Share of net loss (40%)		**(3,055)**		(2,692)
Share of comprehensive loss (40%)	$	**(4,945)**	$	(4,920)

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

6) INVESTMENT IN DOKIE GP

The continuity of the Company's investment in the Dokie General Partnership ("Dokie GP") is as follows:

Investment in Dokie GP		
Investment at January 1, 2016	$	8,020
Share of comprehensive income		435
Distributions received		(2,356)
Foreign exchange		552
Investment at March 31, 2016	**$**	**6,651**

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

6) INVESTMENT IN DOKIE GP (Continued)

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

	March 31, 2016	December 31, 2015
Cash and cash equivalents	**$ 4,548**	$ 7,664
Restricted cash (debt service reserve)	**5,315**	4,990
Trade and other receivables	**1,815**	3,656
Prepaid expenses	**895**	828
Plant and equipment	**121**	121
Intangible assets	**134,859**	128,136
	147,553	145,395
Accounts payable and accrued liabilities	**565**	412
Long-term debt	**115,916**	108,725
	116,481	109,137
Net assets (100%)	**$ 31,072**	$ 36,258
Share of net assets (25.5%)	**7,923**	9,246
Purchase price adjustments	**(1,272)**	(1,226)
Share of net assets (25.5%)	**$ 6,651**	$ 8,020

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Revenue	**$ 7,152**	$ 8,934
Cost of sales	**(1,650)**	(1,787)
Depreciation and amortization	**(1,610)**	(1,782)
Interest expense	**(1,971)**	(2,255)
Other expenses	**(339)**	(342)
Net income (100%)	**$ 1,582**	$ 2,768
Share of net income (25.5%)	**403**	706
Purchase price adjustments	**32**	35
Share of net income and comprehensive income (25.5%)	**$ 435**	$ 741

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

7) INVESTMENT IN JIMMIE CREEK LP

The continuity of the Company's investment in the Jimmie Creek Limited Partnership ("Jimmie Creek LP") is as follows:

Investment in Jimmie Creek LP		
Investment at January 1, 2016	$	34,034
Share of comprehensive loss		(70)
Foreign exchange		2,231
Investment at March 31, 2016	**$**	**36,195**

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

		March 31, 2016		December 31, 2015
Cash reserved for construction activities	**$**	**5,926**	$	5,080
Cash held in escrow restricted for construction		**671**		5,985
Other receivables		**783**		846
Builders' lien holdback deposits		**3,629**		5,066
Equity contribution receivable from partner		**16,137**		18,033
Plant and equipment		**148,249**		127,535
Intangible assets		**308**		212
		175,703		162,757
Accounts payable and accrued liabilities		**9,617**		10,019
Lien holdback liability		**4,292**		5,824
Long-term debt		**123,087**		110,455
		136,996		126,298
Net assets (100%)	**$**	**38,707**	$	36,459
Share of net assets (51%)		**19,737**		18,590
Fair value adjustments		**16,458**		15,444
Share of net assets (51%)	**$**	**36,195**	$	34,034

		Three months ended March 31, 2016		Three months ended March 31, 2015
General and administrative expenses	**$**	**(138)**	$	—
Net loss (100%)		**(138)**		—
Share of net loss and comprehensive loss (51%)	**$**	**(70)**	$	—

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

8) INVESTMENT IN SHANNON GROUP LLC

The continuity of the Company's investment in Shannon Group Holdings, LLC ("Shannon Group LLC") is as follows:

Investment in Shannon Group LLC		
Investment at January 1, 2016	$	62,392
Share of net loss and comprehensive loss		(4,245)
Distribution received		(87)
Return of capital		(594)
Investment at March 31, 2016	**$**	**57,466**

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

		March 31, 2016		December 31, 2015
Investment in Shannon Holdings	**$**	**114,971**	$	124,813
Accounts payable and accrued liabilities		**39**		30
Net assets (100%)	**$**	**114,932**	$	124,783
Share of net assets (50%)	**$**	**57,466**	$	62,392

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

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

8) INVESTMENT IN SHANNON GROUP LLC (Continued)

	Three months ended March 31, 2016
Share of net income in equity accounted investee	$ 1,222
General and administrative expenses	(10)
Net income (100%)	$ 1,212
Share of net income (50%)	$ 606

	Three months ended March 31, 2016
Other comprehensive loss (100%)	$ (9,702)
Share of other comprehensive loss (50%)	(4,851)
Share of net income (50%)	606
Share of comprehensive loss (50%)	$ (4,245)

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

The following tables summarize the financial information of Shannon Holdings as included in its own financial statements. This includes the results and financial position of the Shannon project:

	March 31, 2016	December 31, 2015
Cash and cash equivalents	**$ 2,464**	$ 7,380
Accounts receivable	**854**	1,828
Other assets	**1,598**	1,003
Plant and equipment	**330,975**	332,411
Intangible assets	**7,868**	7,912
Long-term power hedge	**2,555**	9,685
	346,314	360,219
Accounts payable and accrued liabilities	**1,300**	5,971
Lien holdback payable	**1,048**	1,048
Asset retirement obligation	**9,630**	8,084
	11,978	15,103
Net assets (100%)	**$ 334,336**	$ 345,116

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

8) INVESTMENT IN SHANNON GROUP LLC (Continued)

		Three months ended March 31, 2016
Revenue	$	**2,509**
Cost of sales		**(992)**
Depreciation, amortization and accretion		**(3,225)**
Operating expenses		**(1,187)**
Other income		**1,839**
Net loss	$	**(1,056)**
Other comprehensive loss		**(7,129)**
Comprehensive loss (100%)	$	**(8,185)**

9) INVESTMENT IN BLUE LAGOON hf

HS Orka holds a 30% interest in Blue Lagoon hf., which operates the Blue Lagoon geothermal spa in Iceland. During the three months ended March 31, 2016, the Company recognized net income of $0.6 million (three months ended March 31, 2015 - $1.0 million).

10) INVESTMENT IN GEOTHERMAL DEVELOPMENT PROJECTS

a) South America:

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

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

	Mariposa	Peru	Total
Investment at January 1, 2016	$ 18,579	$ 2,007	$ 20,586
Share of comprehensive loss	(6)	—	(6)
Foreign exchange	1,220	132	1,352
Investment at March 31, 2016	**$ 19,793**	**$ 2,139**	**$ 21,932**

b) Italy:

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

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

10) INVESTMENT IN GEOTHERMAL DEVELOPMENT PROJECTS (Continued)

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

		Italy Projects
Investment at January 1, 2016	$	803
Share of comprehensive loss		(36)
Foreign exchange		18
Investment at March 31, 2016	**$**	**785**

11) DEVELOPMENT COSTS

		March 31, 2016		December 31, 2015
Geothermal	**$**	**57,851**	$	55,093
Hydro		**3,572**		2,927
Wind		**516**		209
Total	**$**	**61,939**	$	58,229

12) LONG-TERM DEBT

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

		March 31, 2016		December 31, 2015
Holding company bonds (Sweden)	**$**	**122,755**	$	117,977
Holding company loan facility (North America)		**66,543**		62,377
HS Orka loans		**74,872**		75,185
		264,170		255,539
Less current portion:				
Holding company bonds (Sweden)		**122,755**		117,977
HS Orka loans		**18,149**		17,409
		140,904		135,386
Long-term portion	**$**	**123,266**	$	120,153

The changes to long-term debt in the period reflect $3.3 million of principal repayments at HS Orka, and changes related to the effects of foreign exchange and fair value movements on the holding company bonds (Sweden).

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

12) LONG-TERM DEBT (Continued)

The details of the holding company bonds (Sweden) are as follows:

Holding company bonds (Sweden)	ISK denominated bond	US dollar bonds
Balance at March 31, 2016	$ 52,212	$ 70,543
Maturity	July 16, 2016	December 14, 2016
Interest rate	3.5%	1.5%
Number of shares of HS Orka pledged as security	996,821,339	2,515,640,459
% of outstanding HS Orka shares pledged as security	12.7%	32.1%

The Icelandic Krona ("ISK") denominated bond and the US dollar denominated bonds mature in July and December 2016 respectively. The bonds are non-recourse to the Company and are secured by a portion of the Company's shares of HS Orka. The Company has been in ongoing discussions with the bond holders of the ISK bond for some time. However, negotiations have temporarily stalled as the Icelandic municipality which holds the bond is in the process of being placed under State control due to unrelated financial matters. Management remains hopeful that the bond will be refinanced or the existing bond will be extended. However, should the Company be unsuccessful in refinancing this bond it would lose a 12.7% stake in HS Orka, and the Company's debt would be reduced by $52.2 million. In this event, the Company would own 53.9% of HS Orka and would continue to consolidate their results.

The Company is in active negotiations on the refinancing of the USD bonds and expects to complete the process prior to the expiration of the bonds in December 2016. The USD bonds are secured by a 32.1% stake of HS Orka shares.

As at March 31, 2016, the Company was in compliance with all debt covenants.

13) OTHER LIABILITIES

In 2015, HS Orka was awarded three grants related to a deep drilling program that is scheduled to commence at the Reykjanes geothermal field in the second half of 2016. At December 31, 2015, $10.7 million had been received related to these grants and was included in other liabilities. The Company's share of these grants is $5.1 million at March 31, 2016. During the period, the remaining amounts were distributed to HS Orka’s partners in the deep drilling project.

14) SHARE CAPITAL

a) Capital stock

At March 31, 2016, the Company had unlimited authorized common shares without par value and 468,669,703 common shares issued and outstanding (December 31, 2015 - 468,652,409).

During the three months ended March 31, 2016, the Company issued 17,294 common shares with a nominal fair value following the exercise of stock options (2015 - 1,389,048 shares were issued with a fair value of $0.3 million).

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

14) SHARE CAPITAL (Continued)

b) Stock options

Under the Company's stock option plan, the Board of Directors may grant options for the purchase of up to a total of 10% of the total number of issued and outstanding common shares of the Company with a cap of 25,000,000. Options granted under the plan vest over time at the discretion of the Board of Directors. Options granted to date have an average vesting period of two years and a life of five years.

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

The changes in stock options issued are as follows:

	Number of options	Weighted average exercise price (C$/option)
Outstanding, January 1, 2016	15,161,651	0.45
Granted	4,400,000	0.44
Forfeited and expired	(126,563)	0.92
Exercised	(53,955)	0.30
Outstanding, March 31, 2016	19,381,133	0.44
Exercisable, March 31, 2016	13,536,527	$ 0.42

As at March 31, 2016, incentive stock options represented 4.1% (December 31, 2015 - 3.2%) 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 March 31, 2016 was $0.6 million (December 31, 2015 - $0.5 million).

During the period, 4,400,000 options were granted at a weighted average fair value of C$0.20 per option. The fair value of the stock options issued during the year was estimated at the grant date based on the Black-Scholes Option Pricing Model, using the following assumptions:

	March 31, 2016
Expected dividend yield (%)	**Nil**
Average risk-free interest rate (%)	**0.70%**
Expected life (years)	**5.0**
Expected volatility (%)	**50%**
Expected rate of forfeiture (%)	**5%**

The share-based compensation for the three months ended March 31, 2016 and 2015 has been recognized in the condensed consolidated interim financial statements as follows:

	March 31, 2016	March 31, 2015
Cost of sales	**$ —**	$ 1
General and administrative	**362**	50
Total share-based compensation	**$ 362**	$ 51

15) RELATED PARTY TRANSACTIONS

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

During the three months ended March 31, 2016, the Company has not drawn on the facility, and no amounts are outstanding (December 31, 2015 no amounts outstanding).

16) FINANCIAL INSTRUMENTS

Fair Value

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

Fair value hierarchy

Financial instruments measured at fair value are categorized within a three-tier fair value hierarchy, which prioritizes the inputs in measuring fair value of financial instruments.

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

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

16) FINANCIAL INSTRUMENTS (Continued)

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

As at March 31, 2016

	Level 1	Level 2	Level 3	Total
Assets:				
Short-term investments	$ 2,563	$ —	$ —	$ 2,563
Bonds receivable	—	1,678	—	1,678
Long-term receivable and other assets	—	—	1,302	1,302
	$ 2,563	$ 1,678	$ 1,302	$ 5,543
Liabilities:				
Embedded derivatives	$ —	$ 3,025	$ 63,223	$ 66,248
Interest rate swaps	—	4,511	—	4,511
Holding company bonds (Sweden)	—	122,755	—	122,755
	$ —	$ 130,291	$ 63,223	$ 193,514

The amounts included in Level 2 are for the interest rate swaps, and bonds receivable and embedded derivatives held at HS Orka, and the holding company bonds held by Magma Energy Sweden A.B. The fair value of the bonds receivable is determined using an income approach by discounting projected future interest and principal repayments using an interest rate of 5% plus indexation to the Icelandic Consumer Price Index. The projected future interest and principal repayments were based on a weighted average probability of receiving 75% of the amounts outstanding. There have been indications of an uncertain financial position of the bond holder, an Icelandic municipality, and thus there is some uncertainty about the full recoverability of the bond. The fair value of the interest rate swaps is measured using observable future market interest rates (0.71 to 1.84%). The fair value of the embedded derivatives and holding company bonds payable (Sweden) is determined using observable market interest rates (0.72% to 5.96%) and the London Metals Exchange forward market price of aluminum. Embedded derivatives relating to a contract expiring in 2019 are included in Level 2.

The assets recorded as Level 3 in the fair value hierarchy, long-term receivables and other assets, represent $0.3 million of a potential earn-out payment related to the partial sale of the Company's interest in Dokie GP and $1.0 million of potential earn-out payments related to the sale of Soda Lake. The Dokie GP earn-out payment is based on achieving the generation target in 2016. The fair value is based on a 50% probability of the generation target, discounted at a rate of 6%. The Company reached the generation target in 2015 and received the related payment in early 2016. The Soda Lake earn-out payments are based on probabilities of achieving generation, pricing and development targets over the next one to four years discounted at a rate of 8%.

The liability amount included in Level 3 is for embedded derivatives held at HS Orka that relate to a contract that expires in May 2026. The embedded derivatives are classified as Level 3 as the observable forward market for aluminum only extends to ten years. Level 3 embedded derivatives are sensitive to changes in forward aluminum prices and such changes in forward aluminum prices may result in a significantly higher or lower fair value measurement. At March 31, 2016 projected forward aluminum prices for the period April 1, 2026 to May 28, 2026 are estimated to be within a range of $2,043 to $2,051 per tonne compared to a range of $2,041 to $2,058 at December 31, 2015.

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

16) FINANCIAL INSTRUMENTS (Continued)

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

	January 1, 2016	Foreign exchange loss and unrealized gain	Settlement	March 31, 2016
Liabilities:				
Embedded derivatives	$ (62,518)	$ (2,616)	$ 1,911	$ (63,223)

Changes in one or more of the Level 3 inputs to reasonably possible alternative assumptions would change the fair value measurement significantly. Changes to the fair value of the embedded derivatives would be recognized in the statement of operations.

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

Liquidity Risk

At March 31, 2016 the Company's current liabilities consisted of trade and other payables, current portions of debt and other financial instruments. The Company has a negative working capital of $134.3 million primarily due to the classification of the holding company bonds (Sweden) of $122.8 million as current. These bonds are non-recourse to the Company and the Company intends to retire these bonds through refinancings in 2016 (see note 12). The Company has successfully executed several financings over the past two years. However there are no guarantees that the bonds will be successfully refinanced. As disclosed in note 12, the holding company bonds are secured by a portion of Alterra's ownership stake in HS Orka (44.8% ownership stake).

17) SEGMENTED DISCLOSURES

The Company has four operating segments:

a) The development of hydro, wind, solar and geothermal properties;
b) Geothermal operations;
c) Hydro operations; and
d) Wind operations.

Consolidated revenues during the three months ended March 31, 2016 and 2015 were generated from HS Orka (including the Svartsengi and Reykjanes plants) in Iceland and the Soda Lake plant in the USA (until it was sold on January 30, 2015). Revenues and results from hydro operations (Toba Montrose GP), wind operations (Dokie GP and Shannon Group LLC), Blue Lagoon, Jimmie Creek LP and the geothermal investment properties are included in share of results of equity investments.

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

17) SEGMENTED DISCLOSURES (Continued)

	Three months ended March 31, 2016				
	Construction and development	Operating results Geothermal	Hydro	Wind	Total
Revenues	$ —	$ 14,930	$ —	$ —	$ 14,930
Cost of sales	—	(11,076)	—	—	(11,076)
Gross profit	—	3,854	—	—	3,854
Other income (expenses)					
General and administrative	(1,374)	(869)	—	—	(2,243)
General development expenses	(183)	(85)	—	—	(268)
Share of results of equity investments	(112)	631	(3,055)	1,041	(1,495)
Finance income	—	141	—	—	141
Finance costs	(1,511)	(1,388)	—	—	(2,899)
Change in the fair value of bonds payable	—	(2,129)	—	—	(2,129)
Change in the fair value of derivatives	—	2,873	—	—	2,873
Foreign exchange gain	1,682	641	—	—	2,323
Other loss	(681)	(417)	—	—	(1,098)
	(2,179)	(602)	(3,055)	1,041	(4,795)
Income (loss) before income tax	(2,179)	3,252	(3,055)	1,041	(941)
Income tax expense	—	(1,088)	—	—	(1,088)
Income (loss) for the period	**$ (2,179)**	**$ 2,164**	**$ (3,055)**	**$ 1,041**	**$ (2,029)**

	Three months ended March 31, 2015				
	Construction and development	Operating results Geothermal	Hydro	Wind	Total
Revenues	$ —	$ 16,401	$ —	$ —	$ 16,401
Cost of sales	—	(11,360)	—	—	$ (11,360)
Gross profit	—	5,041	—	—	5,041
Other income (expenses)					
General and administrative	(1,066)	(1,275)	—	—	(2,341)
General development expenses	(64)	—	—	—	(64)
Share of results of equity investments	(19)	1,000	(2,692)	741	(970)
Finance income	77	468	—	—	545
Finance costs	(1,808)	(1,632)	—	—	(3,440)
Change in the fair value of bonds payable	—	(438)	—	—	(438)
Change in the fair value of derivatives	—	(6,813)	—	—	(6,813)
Foreign exchange loss	(6,329)	(2,906)	—	—	(9,235)
Other income	137	—	—	—	137
	(9,072)	(11,596)	(2,692)	741	(22,619)
Income (loss) before income tax	(9,072)	(6,555)	(2,692)	741	(17,578)
Income tax recovery	—	1,307	—	—	1,307
Income (loss) for the period	**$ (9,072)**	**$ (5,248)**	**$ (2,692)**	**$ 741**	**$ (16,271)**

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

18) SUPPLEMENTARY CASH INFORMATION

Change in non-cash working capital items

	March 31, 2016	March 31, 2015
Trade and other receivables	**$ 1,234**	$ (245)
Inventories	**(89)**	(101)
Prepaid expenses	**56**	118
Accounts payable and accrued liabilities	**(2,337)**	172
	$ (1,136)	$ (56)

Allocation of cash and cash equivalents

	March 31, 2016	December 31, 2015
Corporate and other	$ 3,633	$ 3,896
HS Orka	5,938	6,449
	$ 9,571	$ 10,345

19) SEASONALITY

Seasonality has an impact on the Company's quarterly operating results. HS Orka supplies a lower demand for electricity and heating in the summer months in Iceland, Dokie 1 wind farm production levels are higher in the winter months, and most prominently, the Toba Montrose hydro facility's production levels are higher in the summer months due to spring freshet and glacier melt.