

Unaudited Interim Condensed Consolidated Financial
Statements of

Polaris Infrastructure Inc.

March 31, 2016 and 2015

(Expressed in United States dollars)

Polaris Infrastructure Inc.

March 31, 2016 and 2015

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Polaris Infrastructure Inc.
Interim Condensed Consolidated Balance Sheets (Unaudited)

(expressed in United States dollars)

	Note Ref	As at March 31, 2016	As at December 31, 2015
Assets			
Current assets			
Cash	11	\$ 56,110,341	\$ 61,592,219
Accounts receivable	9	9,899,123	6,011,361
Prepaid expenses	10	730,497	1,029,534
		66,739,961	68,633,114
Restricted cash	11	1,508,507	1,502,444
Other assets, net	10	860,142	839,376
Exploration and development properties	12	11,116,364	11,057,405
Geothermal properties	13	23,460,208	15,256,665
Property, plant and equipment, net	14	308,289,925	314,154,792
Intangible assets, net	15	4,340,442	4,419,359
Total assets		\$ 416,315,549	\$ 415,863,155
Liabilities and Total Equity			
Current liabilities			
Accounts payable and accrued liabilities	16	\$ 7,826,947	\$ 6,318,903
Dividend payable		1,551,316	-
Current portion of long-term debt, net	17	9,640,878	9,246,133
		19,019,141	15,565,036
Other liabilities			
Long-term debt, net	17	169,578,352	171,119,526
Decommissioning liabilities	18	4,014,156	3,990,087
Deferred tax liability, net		24,135,005	22,298,921
Total liabilities		216,746,654	212,973,570
Non-controlling interests	19	(225,345)	(208,461)
Equity attributable to the owners of the Company			
Share capital	19	597,710,331	597,710,331
Contributed surplus	19	12,332,732	12,015,673
Accumulated deficit		(410,248,823)	(406,627,958)
Total equity attributable to the owners of the Company		199,794,240	203,098,046
Total equity		199,568,895	202,889,585
Total liabilities and total equity		\$ 416,315,549	\$ 415,863,155

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Polaris Infrastructure Inc.

Interim Condensed Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

(expressed in United States dollars)

		Three Months Ended	
	Note Ref	March 31, 2016	March 31, 2015 (as restated)
Revenue	4	\$ 12,560,328	\$ 12,334,366
Direct costs			
Other direct costs	6	(1,522,531)	(1,520,079)
Depreciation and amortization of plant assets	6	(5,987,935)	(6,625,903)
General and administrative expenses	6	(942,698)	(1,165,146)
Other operating costs	6	(42,843)	(141,993)
Operating income		4,064,321	2,881,245
Interest income		74,696	7,078
Finance costs	7	(4,246,872)	(6,397,124)
Other (losses) gains	8	(142,494)	3,157,481
Loss and comprehensive loss before income taxes		(250,349)	(351,320)
Income tax expense		(1,836,084)	(1,840,702)
Total loss and comprehensive loss		\$ (2,086,433)	\$ (2,192,022)
Total loss and comprehensive loss attributable to:			
Owners of the Company		\$ (2,069,549)	\$ (2,192,022)
Non-controlling interests		\$ (16,884)	\$ -
Basic and diluted loss per share		(\$0.13)	(\$11.81)

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Polaris Infrastructure Inc.

Interim Condensed Consolidated Statements of Changes in Total Equity (Unaudited)

(expressed in United States dollars, except for share information)

	Common Stock		Contributed Surplus	Accumulated Deficit	Total Attributable to the Owners of the Company	Non-Controlling Interests	Total Equity
	Shares	Amount					
Balance, January 1, 2015	185,547	\$ 470,390,332	\$ 32,261,600	\$ (369,134,285)	\$ 133,517,647	\$ 85,814	\$ 133,603,461
Total loss and comprehensive loss	-	-	-	(2,192,022)	(2,192,022)	-	(2,192,022)
Balance, March 31, 2015 (as restated)	185,547	470,390,332	32,261,600	(371,326,307)	131,325,625	85,814	131,411,439
Shares issued in Private Placement	9,299,250	77,816,125	(21,708,085)	-	56,108,040	-	56,108,040
Shares issued in Debenture conversion to equity	5,465,840	45,738,142	-	-	45,738,142	-	45,738,142
Fee shares issued in Private Placement	562,520	3,765,732	-	-	3,765,732	-	3,765,732
Share-based compensation	-	-	1,462,158	-	1,462,158	-	1,462,158
Total loss and comprehensive loss	-	-	-	(35,301,651)	(35,301,651)	(294,275)	(35,595,926)
Balance, December 31, 2015	15,513,157	597,710,331	12,015,673	(406,627,958)	203,098,046	(208,461)	202,889,585
Share-based compensation	-	-	317,059	-	317,059	-	317,059
Dividends declared	-	-	-	(1,551,316)	(1,551,316)	-	(1,551,316)
Total loss and comprehensive loss	-	-	-	(2,069,549)	(2,069,549)	(16,884)	(2,086,433)
Balance, March 31, 2016	15,513,157	\$ 597,710,331	\$ 12,332,732	\$ (410,248,823)	\$ 199,794,240	\$ (225,345)	\$ 199,568,895

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Polaris Infrastructure Inc.

Interim Condensed Consolidated Statements of Cash Flows (Unaudited)

(expressed in United States dollars)

	Three Months Ended	
	Three Months Ended March 31, 2016	March 31, 2015 (as restated)
Net inflow (outflow) of cash related to the following activities		
Operating		
Total loss and comprehensive loss attributable to owners of the Company	\$ (2,069,549)	\$ (2,192,022)
Deduct items not affecting cash:		
Non-controlling interests in net loss of subsidiary	(16,884)	-
Deferred income tax expense	1,836,084	1,840,702
Finance costs recognized	3,788,682	5,540,629
Depreciation and amortization	6,001,348	6,637,438
Accretion of decommissioning liability	8,891	10,698
Change in decommissioning liabilities	15,178	2,747,401
Gain on disposal of asset held for sale	-	(2,713,257)
Gain on valuation of warrant liabilities	-	(18,689)
Accretion on debt	336,765	637,648
Share-based compensation	317,059	-
Unrealized foreign exchange gain	93,029	(3,926,822)
Changes in non-cash working capital:		
Accounts receivable	(3,887,762)	635,765
Prepaid expenses	299,037	284,726
Accounts payable and accrued liabilities	(348,602)	550,022
Interest and return enhancement paid	(3,279,175)	(2,978,705)
	<u>3,094,101</u>	<u>7,055,534</u>
Investing		
Change in restricted cash	(6,063)	32,490
Change in accounts payable and accrued liabilities related to San Jacinto project	1,923,219	(607,015)
Changes in other assets	(34,179)	2,227
Additions to exploration and development	(58,959)	(66,280)
Additions to geothermal properties	(8,203,544)	(109,314)
Additions to property, plant and equipment	(44,151)	(868,904)
	<u>(6,423,677)</u>	<u>(1,616,796)</u>
Financing		
Repayment of debt	(2,124,215)	(3,845,463)
	<u>(2,124,215)</u>	<u>(3,845,463)</u>
Foreign exchange loss on cash held in foreign currency	(28,087)	-
Net increase (decrease) in cash	(5,481,878)	1,593,275
Cash, beginning of period	61,592,219	15,291,540
Cash, end of period	<u>\$ 56,110,341</u>	<u>\$ 16,884,815</u>

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Polaris Infrastructure Inc.

Notes to the Interim Condensed Consolidated Financial Statements

March 31, 2016 and 2015 (unaudited)

(expressed in United States dollars unless otherwise noted)

1. Organization

Polaris Infrastructure Inc. (the "Company") is a corporation existing under the British Columbia Business Corporations Act. The registered office of the Company is located at 666 Burrard Street, Suite 1700, Vancouver, British Columbia V6C 2X8.

The Company is engaged in the acquisition, exploration, development and operation of geothermal energy projects.

The Company, through its subsidiaries Polaris Energy Nicaragua, S.A. ("PENSA") and San Jacinto Power International Corporation ("SJPIC"), subsidiaries of Polaris Geothermal, Inc. ("PGI"), owns and operates a 72 megawatt ("MW") (net) capacity geothermal facility (the "San Jacinto Project"), located in northwest Nicaragua, near the city of Leon. PENSA has entered into the San Jacinto Exploitation Agreement with Nicaraguan Ministry of Energy and Mines to develop and operate the San Jacinto Project.

2. Basis of presentation

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, have been omitted or condensed. Accordingly, the interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2015.

These unaudited interim condensed consolidated financial statements have been prepared on a going concern basis, using historical cost convention, except for derivative financial instruments, which are measured at fair value. The Company's assets held for sale are measured at fair value, less costs to sell. The Company's exploration and development properties and geothermal properties are measured at cost unless impaired or designated to be sold, at which time they are measured at the recoverable amount.

In these unaudited interim condensed consolidated financial statements, unless otherwise indicated, all dollar amounts are expressed in United States ("US") dollars, the Company's functional and reporting currency.

These unaudited interim condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company (the "Board") on May 10, 2016.

3. Summary of significant accounting policies

(a) Change in accounting policy

During the fourth quarter of 2015, the Company changed its accounting policy related to treatment of the return enhancement feature within the San Jacinto project subordinated credit agreements, which included restating comparative periods to reflect the change in accounting policy. Previously, the Company considered the return enhancement an embedded derivative under IFRS 9 – Financial Instruments and valued it separately from the loan agreements. IFRS allows an alternative treatment for the return enhancement feature on the basis that the 'underlying' is non-financial and specific to the party in the contract. Under this alternative, the return enhancement feature is not considered an embedded derivative, as the nature of the return enhancement is viewed to be an adjustment to interest that is closely related to the underlying debt instrument. Management believes that as a result of the restructuring of the debt, treatment of the return enhancement as an embedded derivative is less relevant for users of the financial statements than the inclusion of the enhancement cash flows in the interest charge.

The Company has changed its accounting policy for the return enhancement and no longer accounts for it as an embedded derivative. Instead, the return enhancement feature is now incorporated in the measurement of amortized cost of the loan and determination of interest expense using the effective interest method. There is no impact on the comparative interim condensed consolidated statement of cash flow as a result of the change in accounting policy, which occurred during 2015. The following line items in the comparative interim financial statements have been adjusted as the change in accounting policy was adopted subsequent to the comparative interim period presented in these consolidated financial statements:

Polaris Infrastructure Inc.

Notes to the Interim Condensed Consolidated Financial Statements

March 31, 2016 and 2015 (unaudited)

(expressed in United States dollars unless otherwise noted)

	As at March 31, 2015	Adjustments	As at March 31, 2015 (restated)
Embedded derivative related to long-term debt	(3,430,361)	3,430,361	-
Long-term debt, net	(235,884,111)	(11,794,343)	(247,678,454)
Accumulated deficit	(366,530,661)	(4,795,647)	(371,326,308)
Finance costs - Interest on debt and Other	5,831,118	566,006	6,397,124
Finance costs - Embedded derivative valuation (gain) loss	776,208	(776,208)	-
Total loss and comprehensive loss	(2,402,224)	210,202	(2,192,022)
Basic and diluted weighted average number of shares outstanding	185,547		185,547
Basic and diluted loss per share	\$ (12.95)		\$ (11.81)

(b) Summary of significant accounting policies

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its controlled subsidiaries. All significant intercompany balances and transactions are eliminated upon consolidation.

These interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as the annual consolidated financial statements of the Company for the year ended December 31, 2015, as presented in Note 3 to the audited consolidated financial statements.

Accounting Standards issued but not yet effective

IFRS 9 – Financial instruments

IFRS 9, “Financial instruments” (“IFRS 9”) was issued by the IASB on July 24, 2014 and will replace IAS 39, “Financial instruments: recognition and measurement” (IAS 39) and earlier versions of IFRS 9 already adopted by the Company. Final amendments to IFRS 9 released on July 24, 2014 introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. Other previously issued amendments to IFRS 9 that have not yet been adopted by the Company include a substantially reformed approach to hedge accounting and requirements to recognize gains or losses that relate to the effect of a company’s own credit risk in measuring liabilities elected to be measured at fair value outside of net earnings or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and is available for earlier adoption. The Company is currently evaluating the impact of the amendments to this standard on its results of operations, financial position or disclosures and whether the new amendments will be adopted earlier than the required date of implementation. The Company early adopted IFRS 9 with its conversion to IFRS.

IFRS 15 – Revenue from Contracts and Customers

IFRS 15, “Revenue from Contracts and Customers” (“IFRS 15”) was issued by the IASB on May 28, 2014, and will replace IAS 18, “Revenue”, IAS 11, “Construction Contracts”, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of IFRS 15 on its results of operations, financial position or disclosures.

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 Leases, which requires lessees to recognize assets and liabilities for most leases. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2019, with earlier application permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied or is applied at the same date as IFRS 16. The Company is currently evaluating the impact of IFRS 16 on its results of operations, financial position or disclosures, along with timing of adoption.

Polaris Infrastructure Inc.

Notes to the Interim Condensed Consolidated Financial Statements

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(expressed in United States dollars unless otherwise noted)

IAS 7 – Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows, which requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of amendments to IAS 7 on its results of operations, financial position or disclosures.

IAS 12 – Income Taxes

In January 2016, the IASB issued amendments to IAS 12 Income Taxes, which require recognition of deferred tax assets for unrealized losses to the extent future taxable profit is sufficient and for the entity to deduct the amounts resulting from reversal of temporary differences associated with the unrealized losses. An entity shall apply those amendments for annual periods beginning on or after 1 January 2017. Earlier application is permitted. The Company is currently evaluating the impact of amendments to IAS 12 on its results of operations, financial position or disclosures.

4. Revenue

Revenue for the three months ended March 31, 2016 and 2015 of \$12,560,328 and \$12,334,366, respectively, was earned from the sale of energy to Nicaraguan power distributors Distribuidora De Electricidad del Norte, S.A. (“Disnorte”) and Distribuidora De Electricidad del Sur, S.A. (“Dissur”), subsidiaries of the Spanish utility TSK-Melfosur Internacional (“TMI”), at the Company’s San Jacinto Project.

During the three months ended March 31, 2016 and 2015, the Company did not sell any Certified Emission Reductions (“CERs”).

5. Segment information

The Company currently operates in one reportable operating segment, being the acquisition, exploration, development and operation of geothermal projects, which is conducted principally in Latin America. The Company’s chief operating decision maker evaluates the performance of the Company’s reportable operating segment, and makes recommendations to the Board to allocate available resources based on various criteria, including the availability of proven resources, costs of development, availability of financing, actual and expected financial performance, and existing debt covenants. The Company has presented the geographic information in the following tables.

Revenue	Three Months Ended	
	March 31, 2016	March 31, 2015
Canada	\$ -	\$ -
United States	-	-
Nicaragua	12,560,328	12,334,366
	<u>\$ 12,560,328</u>	<u>\$ 12,334,366</u>

Comprehensive loss before income taxes	Three Months Ended	
	March 31, 2016	March 31, 2015
Canada	\$ (524,500)	\$ 2,594,061
United States	(45,488)	(254,843)
Nicaragua	319,639	(2,690,538)
	<u>\$ (250,349)</u>	<u>\$ (351,320)</u>

Polaris Infrastructure Inc.

Notes to the Interim Condensed Consolidated Financial Statements

March 31, 2016 and 2015 (unaudited)

(expressed in United States dollars unless otherwise noted)

Assets and liabilities	As at March 31, 2016	As at December 31, 2015
Canada	\$ 31,510,064	\$ 31,161,140
United States	373,418	1,280,439
Nicaragua	384,432,067	383,421,576
Total assets	\$ 416,315,549	\$ 415,863,155
Canada	\$ 1,140,785	\$ 1,102,990
United States	360,058	360,058
Nicaragua	348,074,745	345,766,993
Total non-current assets	\$ 349,575,588	\$ 347,230,041
Canada	\$ 3,744,832	\$ 2,300,028
United States	2,885,382	2,901,717
Nicaragua	210,116,440	207,771,825
Total liabilities	\$ 216,746,654	\$ 212,973,570

6. General and administrative and other expenses

(a) Direct costs

Direct costs related to the production of energy consist of the following:

	Three Months Ended	
	March 31, 2016	March 31, 2015
Depreciation and amortization	\$ 5,987,935	\$ 6,625,903
Employee costs	656,637	717,052
General liability insurance	489,251	494,684
Maintenance	374,714	303,542
Other direct costs	1,929	4,801
	\$ 7,510,466	\$ 8,145,982

(b) General and administrative expenses

The Company's general and administrative expenses for the three months ended March 31, 2016 and 2015 consisted of:

	Three Months Ended	
	March 31, 2016	March 31, 2015
Salaries and benefits	\$ 252,798	\$ 363,450
Share-based compensation	327,807	-
Facilities and support	176,216	151,039
Professional fees	96,667	522,420
Taxes and licenses	592	2,991
Supplier taxes	6,740	511
Insurance	89,898	91,832
Depreciation of other assets	13,413	11,536
Other general and administrative expenses	2,107	650
Gross general and administrative expenses	966,238	1,144,429
Total allocation to exploration and development and geothermal properties	(23,540)	20,717
Net general and administrative expenses	\$ 942,698	\$ 1,165,146

(c) Other operating costs

Polaris Infrastructure Inc.

Notes to the Interim Condensed Consolidated Financial Statements

March 31, 2016 and 2015 (unaudited)

(expressed in United States dollars unless otherwise noted)

Recurring costs of maintaining the Company's exploration and development properties not currently under active development resulted in other operating costs for the three months ended March 31, 2016 and 2015 of \$42,843 and \$141,993, respectively. Other operating costs consist primarily of annual lease costs associated with properties not currently under development.

7. Finance costs

The Company's finance costs for the three months ended March 31, 2016 and 2015 consisted of:

	Three Months Ended	
	March 31, 2016	March 31, 2015
Interest on debt	\$ 3,788,682	\$ 5,540,629
Accretion on debt	336,765	637,648
Accretion of decommissioning liabilities	8,891	10,698
Other finance costs	112,534	208,149
	<u>\$ 4,246,872</u>	<u>\$ 6,397,124</u>

Cash paid for interest during the three months ended March 31, 2016 and 2015 was \$3,279,175 and \$2,978,705, respectively.

The Company changed its accounting policy for the return enhancement and no longer accounts for it as an embedded derivative. Instead, the return enhancement features are now incorporated in the measurement of amortized cost of the loan and determination of interest expense using the effective interest method. Comparative amounts for the three months ended March 31, 2015 reflect the change in policy.

8. Other gains and losses

The Company's other gains and losses for the three months ended March 31, 2016 and 2015 consisted of:

	Three Months Ended	
	March 31, 2016	March 31, 2015
Gain on valuation of warrant liabilities	\$ -	\$ 18,689
Foreign exchange (losses) gains	(167,803)	3,849,889
Loss on disposal of assets	-	(39,583)
Other gains (losses)	25,309	(671,514)
	<u>\$ (142,494)</u>	<u>\$ 3,157,481</u>

The final award amount of \$1,906,046 awarded to the drilling vendor in the arbitration described in Note 22 and associated legal costs were recognized in other gains and losses for the year ended December 31, 2015. Legal costs associated with the arbitration previously recognized in general and administrative expenses of \$671,514 for the three months ended March 31, 2015 were reclassified to other losses.

9. Accounts receivable

The Company's accounts receivable of \$9,899,123 as at March 31, 2016 and \$6,011,361 as at December 31, 2015, consisted of amounts due from its customers, Disnorte and Dissur, subsidiaries of the Spanish utility TMI, related to the operations of the San Jacinto Project. Payment terms are 45 days from invoice date.

10. Prepaid expenses and other assets, net

The following is a summary of the Company's prepaid expenses and other assets, net as at:

(a) Prepaid expenses

	March 31, 2016	December 31, 2015
Prepaid insurance	\$ 589,946	\$ 889,275
Other prepaids	140,551	140,259
	<u>\$ 730,497</u>	<u>\$ 1,029,534</u>

Polaris Infrastructure Inc.

Notes to the Interim Condensed Consolidated Financial Statements

March 31, 2016 and 2015 (unaudited)

(expressed in United States dollars unless otherwise noted)

(b) Other assets, net

	March 31, 2016	December 31, 2015
Fixed assets, net	\$ 63,340	\$ 73,481
Recoverable taxes	659,964	630,526
Other deposits	136,838	135,369
	<u>\$ 860,142</u>	<u>\$ 839,376</u>

Other fixed assets consist of furniture, fixtures and equipment at the Company's Managua office with lives of three to seven years. Depreciation on other fixed assets of \$13,413 and \$11,536 was recorded for the three months ended March 31, 2016 and 2015, respectively.

11. Restricted cash

	March 31, 2016	December 31, 2015
Casita exploitation application guarantee	\$ 50,000	\$ 50,000
San Jacinto guarantees	1,080,000	1,080,000
Reclamation bonds - US and Canada	365,649	358,375
Other restricted cash	12,858	14,069
	<u>\$ 1,508,507</u>	<u>\$ 1,502,444</u>

In addition to amounts recorded as restricted cash, cash in the amount of \$25,908,002 and \$30,790,101 held by the Company as at March 31, 2016 and December 31, 2015, respectively, is restricted for use in the San Jacinto project, and is included in the Company's available cash as these amounts are available for current use.

12. Exploration and development properties

The Company incurred the following costs in connection with its exploration and development properties that have not yet reached technical feasibility and commercial viability.

	Balance at December 31, 2015	2016 Additions	Balance at March 31, 2016
Intangible			
Casita	\$ 10,956,940	\$ 58,959	\$ 11,015,899
Total- Intangible	<u>10,956,940</u>	<u>58,959</u>	<u>11,015,899</u>
Tangible			
Casita	100,465	-	100,465
Total- Tangible	<u>100,465</u>	<u>-</u>	<u>100,465</u>
Total Exploration and Development Properties			
Casita	11,057,405	58,959	11,116,364
Total	<u>\$ 11,057,405</u>	<u>\$ 58,959</u>	<u>\$ 11,116,364</u>

13. Geothermal properties

Development costs related to the San Jacinto project that are not yet in operation were \$23,460,208 as at March 31, 2016 and \$15,256,665 at December 31, 2015. The increase relates to drilling costs for the San Jacinto Project.

14. Property, plant and equipment, net

The following is a summary of the activity related to the Company's property, plant and equipment:

	December 31, 2015	2016 Activity	March 31, 2016
San Jacinto project	\$ 447,665,757	\$ 61,881	\$ 447,727,638
Accumulated depreciation	(96,234,818)	(5,909,018)	(102,143,836)
Accumulated impairment	(38,940,166)	-	(38,940,166)
Spare parts inventory	1,664,019	(17,730)	1,646,289
	<u>\$ 314,154,792</u>	<u>\$ (5,864,867)</u>	<u>\$ 308,289,925</u>

Polaris Infrastructure Inc.

Notes to the Interim Condensed Consolidated Financial Statements

March 31, 2016 and 2015 (unaudited)

(expressed in United States dollars unless otherwise noted)

Property, plant and equipment assets currently in operation are being depreciated on a straight-line basis. Substantially all of the property, plant and equipment assets are depreciated over the remaining term of the relevant power purchase agreement ("PPA"). Depreciation expense of \$5,909,018 and \$6,546,986 for the three months ended March 31, 2016 and 2015, respectively, was recorded in the consolidated statements of operations and comprehensive loss.

15. Intangible assets

Amortization expense related to the transmission assets for the San Jacinto project donated to the Nicaraguan utility, ENATREL in December 2011, was \$78,917 for each of the three months ended March 31, 2016 and 2015.

16. Accounts payable and accrued liabilities

	March 31, 2016	December 31, 2015
Trade payables	\$ 978,999	\$ 1,213,323
Construction payables	1,306,286	557,238
Construction accrued liabilities	3,950,592	2,776,421
Interest payable	512,805	593,949
Other accrued liabilities	1,078,265	1,177,972
	<u>\$ 7,826,947</u>	<u>\$ 6,318,903</u>

17. Long-term debt, net

	Phase I		Phase II		Total Phase I and Phase II Debt	Loan from Former Shareholder	
	Senior Debt	Subordinated Debt	Senior Debt	Subordinated Debt		Shareholder	Total
Loans and other borrowings – December 31, 2015	\$39,751,152	\$12,785,057	\$109,192,613	\$17,887,566	\$179,616,388	\$ 749,271	\$180,365,659
Capitalized interest expense	-	-	-	-	-	4,151	4,151
Return enhancement	-	255,735	-	330,765	586,500	-	586,500
Accretion of deferred transaction costs	129,967	-	206,797	-	336,764	-	336,764
Repayments of debt	(491,459)	(146,818)	(1,282,400)	(203,538)	(2,124,215)	-	(2,124,215)
Effect of foreign exchange on loans	-	-	-	-	-	50,371	50,371
Loans and other borrowings – March 31, 2016	\$39,389,660	\$12,893,974	\$108,117,010	\$18,014,793	\$178,415,437	\$ 803,793	\$179,219,230
Current	\$ 2,088,702	\$ 623,976	\$ 5,289,900	\$ 834,507	\$ 8,837,085	\$ 803,793	\$ 9,640,878
Non-current	37,300,958	12,269,998	102,827,110	17,180,286	169,578,352	-	169,578,352
Unamortized transaction costs/return enhancement	2,726,865	172,768	6,016,590	100,116	9,016,339	-	9,016,339
Principal balance	\$42,116,525	\$13,066,742	\$114,133,600	\$18,114,909	\$187,431,776	\$ 803,793	\$188,235,569
Maturity date	12/15/2024	12/15/2025	12/15/2028	6/15/2029		12/31/2011	

	Three Months Ended	
	March 31, 2016	March 31, 2015
Phase I Facility		
Interest recorded as financing cost	\$ 1,176,871	\$ 1,577,496
Accretion recorded as financing cost	129,967	265,387
Phase II Facility		
Interest recorded as financing cost	\$ 2,607,660	\$3,086,980
Accretion recorded as financing cost	206,797	291,249
Debentures		
Interest recorded as financing cost	\$ -	\$ 876,153
Accretion recorded as financing cost	-	81,012
Other		
Interest recorded as financing cost	\$ 4,151	\$ -
Accretion recorded as financing cost	-	-
Total		
Interest recorded as financing cost	\$ 3,788,682	\$ 5,540,629
Accretion recorded as financing cost	336,764	637,648

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(a) Credit agreements

Summary of Phase I and Phase II Credit Agreements

As at March 31, 2016 and 2015, interest rates on the Phase I senior facilities (the "Phase I Senior Debt") were 7.13% and 6.77%, respectively. Interest on the Phase I subordinated facility (the "Phase I Subordinated Debt") is fixed at 6% annually.

As at March 31, 2016 and 2015, interest rates on the Phase II senior facility (the "Phase II Senior Debt") were 7.13% and 6.77%, respectively. Interest on the Phase II subordinated facility (the "Phase II Subordinated Debt") is fixed at 6% annually.

The Phase I and Phase II Credit Agreements are secured by substantially all of the assets of the San Jacinto Project, and contain both affirmative and negative covenants. As at March 31, 2016, the Company was in compliance with the requirements of the Phase I and Phase II Credit Agreements. All debt drawn on the Phase I and II Credit Agreements is non-recourse to the Company and all of its subsidiaries other than PGI, PENSA and SJPIC.

The Company identified certain embedded derivatives related to the Phase I and II Credit Agreements, all of which had \$nil value as at March 31, 2016 and December 31, 2015.

(b) Loan from former shareholder

The Company assumed a loan from a former shareholder of WGPI in connection with a historical business combination. The loan is denominated in Canadian dollars and interest is calculated annually at the Royal Bank of Canada's prime rate. The loan matured on December 31, 2011, but the former shareholder appears to have ceased operations. As at March 31, 2016, the Company continues to accrue interest at the Royal Bank of Canada's prime rate of 2.70%. No interest was paid for this loan during the three months ended March 31, 2016 and 2015.

18. Decommissioning liabilities

Reconciliation of the provision for decommissioning liabilities by property is as follows:

	South Meager	Orita	Sierra	Total
December 31, 2015	\$ 1,160,387	\$ 1,774,982	\$ 1,054,718	\$ 3,990,087
Revision in estimate	(1,217)	10,284	6,111	15,178
Accretion	1,392	4,704	2,795	8,891
March 31, 2016	\$ 1,160,562	\$ 1,789,970	\$ 1,063,624	\$ 4,014,156

The following assumptions were used in the determination of the Company's decommissioning liabilities:

	Undiscounted Costs	Discount Rates	
		March 31, 2016	December 31, 2015
South Meager	1,171,571	0.54%	0.48%
Orita	1,812,964	0.73%	1.06%
Sierra	1,077,285	0.73%	1.06%

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19. Share capital

The Company's capital transactions are presented in the statement of changes in total equity and as follows:

	Number of Shares Authorized	Number of Shares Issued and Fully Paid	Number of Shares Reserved for Issue Under Stock Options (Exercisable)	Number of Shares Reserved for Issue Under Warrants	Number of Shares Reserved for Issue Under Restricted and Deferred Stock
Balance at December 31, 2014	185,547	185,547	5,374	32,357	-
Stock options forfeited or expired	-	-	(2,923)	-	-
Stock options granted	-	-	-	-	-
RSUs and DSUs granted	-	-	-	-	77,566
Warrants expired	-	-	-	(6,166)	-
Shares issued in Private Placement	9,299,250	9,299,250	-	-	-
Shares issued in Debenture conversion to equity	5,465,840	5,465,840	-	-	-
Fee shares issued in Private Placement	562,520	562,520	-	-	-
Balance at December 31, 2015	15,513,157	15,513,157	2,451	26,191	77,566
Balance at March 31, 2016	15,513,157	15,513,157	2,451	26,191	77,566

(a) Stock options, restricted share units and deferred share units

The Company's Omnibus Long-Term Incentive Plan (the "LTIP") adopted in June 2012 and most recently approved in May 2015, provides that stock options may be granted to directors, senior officers, employees and consultants of the Company or any of its affiliates and employees of management companies engaged by the Company. Options granted under the LTIP are for a contractual term not to exceed five years from the date of their grant, and vesting is determined by the Company's Board.

The following table reconciles stock options outstanding as at March 31, 2016 and December 31, 2015:

	For the three months ended March 31, 2016	Weighted Average Exercise Price (CDN)	For the year ended December 31, 2015	Weighted Average Exercise Price (CDN)
Balance at beginning of period	26,451	\$ 70.54	5,374	\$ 940.00
Granted during the period	-	-	24,000	10.00
Forfeited during the period	-	-	(2,605)	695.24
Expired during the period	-	-	(318)	5,065.16
Balance at end of period	26,451	\$ 70.54	26,451	\$ 70.54

The following table summarizes the information related to stock options outstanding as at March 31, 2016:

Range \$CDN	Outstanding Options			Exercisable Options	
	Number of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price (\$CDN)	Number of Options Outstanding	Weighted Average Exercise Price (\$CDN)
0.00 - 99.99	24,000	4.1	\$ 10.00	-	\$ -
100.00 - 999.99	2,451	0.9	663.30	2,451	663.30
	26,451	3.8	\$ 70.54	2,451	\$ 663.30

For the three months ended March 31, 2016 and 2015, the Company recognized shared-based compensation expense associated with options, with a corresponding increase in contributed surplus, of \$19,521 and \$nil, respectively.

There are no performance criteria associated with the RSUs. The Company will deliver shares in exchange for the RSUs as soon as possible after each vesting date. The fair value of the RSUs are recognized over

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the vesting period, and the Company recognized shared-based compensation expense associated with RSUs, with a corresponding increase in contributed surplus, of \$297,538 and \$nil for the three months ended March 31, 2016 and 2015, respectively.

The Company also granted 6,452 deferred share units (“DSUs”) in the amount of CDN\$100,000 on June 30, 2015. There are no performance criteria associated with the DSUs and they are effective on the first day of the fiscal quarter following the grant. The DSUs granted are thus effective July 1, 2015 and expire June 30, 2016. The total fair value of \$80,170 (CDN\$100,000 at the June 30, 2015 Bank of Canada exchange rate of 0.8017) will be recognized as share-based compensation expense with a corresponding increase in share-based compensation liabilities over the one year service period from July 1, 2015 through June 30, 2016. Participants may redeem DSUs within the 90 days following termination from the Company by providing a notice of redemption specifying an election to receive either a cash payment or Company shares or both. Until the liability is settled, the Company will remeasure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the period. For the three months ended March 31, 2016, the Company recognized share-based compensation of \$10,747, which includes recognition of the grant date fair value and the gain in fair value of the share-based compensation liability, which reduced share-based compensation expense.

(b) Contributed surplus

The Company’s contributed surplus consists of amounts ascribed to equity-settled employee benefits and other share-based payments, such as broker warrants. Additionally, for each transaction related to its stock, the Company allocates the consideration received between share capital and contributed surplus. The amount allocated to share capital is calculated as the number of shares issued multiplied by the market price of the Company’s stock on the date of issuance, and the residual is allocated to contributed surplus.

(c) Per share amounts

The following table summarizes the common shares used in calculating net loss per common share:

	Three Months Ended	
	March 31, 2016	March 31, 2015
Total loss and comprehensive loss attributable to owners of the Company	\$ (2,069,549)	\$ (2,192,022)
Basic and diluted weighted average number of shares outstanding	15,513,157	185,547
Basic and diluted loss per share	(\$0.13)	(\$11.81)

The following instruments are anti-dilutive and not included in the calculation of diluted earnings per share:

	March 31, 2016	March 31, 2015
Exercisable stock options outstanding	2,451	5,374
Warrants	26,191	32,357
Total anti-dilutive instruments	28,642	37,731

(e) Non-controlling interests

The Company, through its subsidiary PGI, owns 99.34% of Polaris Energy Corp. and 95% of Cerro Colorado Corp., both of which are Panamanian companies. Losses attributed to the non-controlling interest owners in these two subsidiaries for the three months ended March 31, 2016 and 2015 were \$16,884 and \$nil, respectively.

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20. Related party transactions

The following amounts related to transactions and compensation of key management and the Company's Directors:

	Three Months Ended	
	March 31, 2016	March 31, 2015
Short-term employee benefits	\$ 114,944	\$ 1,159,091
Other long-term benefits	-	193
Share-based payment	327,806	128,081
Total key management compensation	\$ 442,750	\$ 1,287,365

21. Commitments

The Company enters into agreements for geothermal concessions, capital asset purchases, and building leases. The minimum annual payments required are as follows:

Geothermal property lease commitments

	March 31, 2016		March 31, 2015	
No later than one year	\$	-	\$	30,000
For years 2 - 5		120,000		120,000
Thereafter		300,000		300,000
Total commitments for expenditures	\$	420,000	\$	450,000

Non-cancelable operating lease commitments

	March 31, 2016		March 31, 2015	
No later than one year	\$	46,148	\$	61,091
For years 2 - 5		78,143		78,143
Thereafter		-		-
Total operating lease commitments	\$	124,291	\$	139,234

22. Contingencies

Legal proceedings

One of the Company's indirect subsidiaries, PENSA, was a respondent in a legal claim arising out of a contract dispute with one of its drilling vendors. PENSA issued a counterclaim and management was previously uncertain whether PENSA would be obligated to pay damages, while the claim was pending formal arbitration. The Company did not previously record a provision for the claim as the amount and timing of payment of damages was not certain or estimable. The arbitrator issued the final award in July 2015, awarding the drilling vendor a total of \$1,906,046, of which \$671,514 was recognized as an expense in other gains and losses in the statement of operations and comprehensive loss for the period ended March 31, 2015. All legal fees associated with the matter have been reclassified to other gains and losses for all periods presented.

PENSA is also a respondent in a legal claim pending for approximately \$0.1 million arising out of a dispute with a previous Director. The Company has not recorded a provision for this claim as the amount and timing of payment of damages, if any, is not certain or estimable as of March 31, 2016.

23. Financial instruments and risk management

(a) Fair value of financial assets and liabilities

As at March 31, 2016 and December 31, 2015, the carrying amounts of accounts receivable, restricted cash, accounts payable and accrued liabilities, and current portion of long-term debt are at fair value or approximate fair value due to the short term to maturity. The fair value of long term-debt approximates carrying value. The carrying value of the long-term debt is net of unamortized transaction costs as further explained in Note 17.

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(b) Financial risk management

The Company is exposed to financial risks arising from its financial assets and liabilities. The financial risks include market risks relating to interest rates, foreign exchange rates and commodity prices.

(c) Interest rate risk

The Phase I and II Senior Facilities bear interest at an applicable margin of 6.5% with quarterly interest payments that are variable based upon 3-month LIBOR. The total rate as at March 31, 2016 was 7.13%. The Phase I and II Subordinated Facilities bears interest at a fixed rate of 6%. The Company determined that a hypothetical 10 basis point increase in 3-month LIBOR would result in an increase of \$39,063 in financing costs for the three months ended March 31, 2016.

Under the amendments to the Phase I and Phase II Credit Agreements, the borrowers are required to enter into interest rate swaps for at least 100% and 50% of the outstanding balance of the Phase I and Phase II Senior Credit Facilities, respectively. Management believes the Company is not exposed to significant interest rate risk on the loans, but is working with the San Jacinto Project lenders to enter into the required interest rate swaps.

(d) Currency risk

The Company operates internationally and is exposed to risks from changes in foreign currency exchange rates. The functional currency of the Company is the US dollar and currently most of the Company's transactions are denominated in US dollars. As at March 31, 2016, the Company had net Canadian dollar denominated accounts payable and long-term debt of CDN\$599,939 (net of cash and security deposits).

The Company determined that a 10% change in the Canadian dollar against the US dollar would have impacted total loss and comprehensive loss by \$46,255 for the three months ended March 31, 2016. The Company does not enter into any foreign exchange contracts to mitigate this risk.

(e) Commodity prices

The Company's commodities consist of power produced and CERs earned. The Company is not exposed to commodity price risk with respect to the power it produces as all power currently produced is sold under the terms of a 20-year PPA which establishes a fixed price and escalator.

The prices of CER's have fluctuated widely during recent years and are determined by economic and geopolitical factors. Any movement in CER prices could have an effect on the Company's consolidated financial statements.

(f) Credit risk

Credit risk is the risk of financial loss to the Company if a partner or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which potentially subject the Company to concentrations of credit risk consist of accounts receivable.

The Company deposits its cash with reputable financial institutions, for which management believes the risk of loss to be remote. Most of the Company's accounts receivable relate to PENZA's PPA with the Nicaraguan power distributors Disnorte and Dissur. As both Disnorte and Dissur are subsidiaries of the same company, currently PENZA has one customer for all of its power sales. This party is subject to normal industry credit risks. Management does not believe that this represents a significant credit risk as the customer is a power distributor in the country of Nicaragua, and the government is committed to the stability of the sector. Credit risk concentration with respect to trade receivables is therefore mitigated but not eliminated due to the relationship between the Company and the Government of Nicaragua. The Company manages this risk by seeking out alternative customers both in Nicaragua and in other Central American countries so that, in the event of a credit failure on the part of its current customer, it would have alternative arrangements. The Company is entitled to sell its power to alternative customers in the event that its current customer fails to pay for power generated and such failure to pay continues for a period of 60 days.

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Maximum credit risk is calculated as the total value of accounts receivable as at the balance sheet date less any liability amounts where there is a legal right to offset. The Company's maximum credit risk as at March 31, 2016 and December 31, 2015 was \$9,899,123 and \$6,011,361, respectively.

(g) Liquidity risk

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

The following are maturities for the Company's non-derivative and derivative financial liabilities as at March 31, 2016:

	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years	Total
Accounts payable and accrued liabilities	\$ 7,826,947	\$ -	\$ -	\$ -	\$ 7,826,947
Debt, current and long-term	9,640,879	22,677,560	30,998,582	124,918,548	188,235,569
Interest obligations	12,785,591	23,504,032	19,895,032	30,899,495	87,084,150
Dividend payable	1,551,316	-	-	-	1,551,316
	\$ 31,804,733	\$46,181,592	\$50,893,614	\$ 155,818,043	\$284,697,982

Interest on the San Jacinto Project credit facilities is due and payable quarterly, and is currently estimated to be approximately \$3.2 million each quarter. The Company plans to make payments of interest on the San Jacinto project credit facilities out of its current cash and cash generated by operations.

24. Capital management

The Company's capital structure is comprised of net long-term debt, as further disclosed in Note 17, cash, and shareholders' equity (consisting of issued capital and contributed surplus offset by accumulated deficit). The Company's objectives when managing its capital structure are to:

- i) maintain financial flexibility to preserve the Company's access to capital markets and its ability to meet its financial obligations; and
- ii) finance internally generated growth as well as potential acquisitions.

In order to facilitate the management of capital, the Company prepares annual expenditure budgets, which are updated as necessary and are reviewed and approved by the Company's Board.

In preparing its budgets, the Company considers externally-imposed capital requirements pursuant to the terms of the Phase I and Phase II Credit Agreements entered into by PGI's subsidiaries, PENSA and SJPIC (Note 17). These externally-imposed capital requirements will affect the Company's approach to capital management. The Company's externally-imposed capital requirements include maintaining minimum solvency ratios for PENSA and SJPIC and restrictions on the use of revenue from the San Jacinto project.