POLARIS

POLARIS INFRASTRUCTURE INC.

Management's Discussion and Analysis

For the Three and Six Months Ended June 30, 2016 **August 9, 2016**

INTRODUCTORY COMMENTS

General

The following management's discussion and analysis ("MD&A") focuses on significant factors that affected Polaris Infrastructure Inc. and its subsidiaries ("Polaris Infrastructure," "we" or the "Company") during the relevant reporting period and to the date of this report. It contains a review and analysis of the financial results for the three and six months ended June 30, 2016, identifies business risks that the Company faces and comments on the financial resources required for the development of its business.

This MD&A supplements, but does not form part of, the unaudited interim condensed consolidated financial statements of the Company and the notes thereto for the three and six months ended June 30, 2016, and the consolidated financial statements and MD&A for the year ended December 31, 2015. Additional information relating to the Company such as the Annual Information Form ("AIF") can be found on the System for Electronic Disclosure and Retrieval ("SEDAR") at www.sedar.com. Unless stated otherwise, the information in this MD&A is current as at August 9, 2016.

All amounts, unless specifically identified as otherwise, both in the consolidated financial statements and this MD&A are expressed in U.S. dollars.

Certain measures in this document do not have any standardized meaning as prescribed by International Financial Reporting Standards ("IFRS") and, therefore, are not considered generally accepted accounting principles ("GAAP") measures. Where non-GAAP measures or terms are used, definitions are provided. In this document and in the Company's consolidated financial statements, unless otherwise noted, all financial data is prepared in accordance with IFRS.

Earnings before interest, taxes, depreciation and amortization ("EBITDA") is a non-GAAP metric used by many investors to compare companies on the basis of ability to generate cash from operations. The Company uses Adjusted EBITDA to assess its operating performance without the effects of (as applicable): current and deferred tax expense, finance costs, interest income, other gains and losses, impairment loss, depreciation and amortization of plant assets, share-based compensation and other non-recurring items. The Company adjusts for these factors as they may be non-cash, unusual in nature and are not factors used by management for evaluating the performance of the Company. The Company believes the presentation of this measure will enhance an investor's understanding of its operating performance. Adjusted EBITDA is not intended to be representative of cash provided by operating activities or results of operations determined in accordance with GAAP.

Forward-looking Statements

This MD&A contains forward-looking information or future-oriented financial information and, as such, is based on an assumed set of economic conditions and courses of action. Please refer to the cautionary note at the end of this MD&A regarding the risks associated with the forward-looking information and the risk factors set out under the headings "Risks and Uncertainties" in this MD&A, and "Forward Looking Statements" and "Risk Factors" in the Company's AIF for the year ended December 31, 2015 available on SEDAR at www.sedar.com.

BUSINESS OVERVIEW AND STRATEGY

Polaris Infrastructure is a Toronto-based company engaged in the operation, acquisition and development of renewable energy projects in Latin America. Currently, the Company operates a 72 MW geothermal project located in Nicaragua.

Polaris Infrastructure's mission is to be a leading Latin America-focused renewable power project developer and operator, while providing superior shareholder returns. Senior management has extensive experience in critical areas of renewable finance, development and operations. The board of directors of the Company (the "Board") is comprised of individuals with a broad range of industry and business expertise who are well qualified to provide oversight and strategic direction to the Company.

Events, transactions and activities relating to Polaris Infrastructure's geothermal properties which occurred during the three and six months ended June 30, 2016 and to the date of this MD&A are discussed below.

Recent Developments

San Jacinto Operations Commentary

Plant and steamfield availability was strong throughout the second quarter of 2016, and given the anticipated impact of the injection well workover program, power generation came in as expected. Net power generation in the second quarter of 2016 was 46.5 MW, versus 48.4 MW in the first quarter, with the quarter over quarter decline resulting primarily from curtailed generation during the injection well workover portion of the 2015/2016 San Jacinto drilling program. During this approximately 8-week period of reduced injection capacity, we had to correspondingly take certain production wells out of service. This is a non-recurring impact and one that we view as an important investment into the future production capability of the plant, as discussed below.

Subsequent to the conclusion of the second quarter of 2016, we completed a two-week minor maintenance program on one of the two turbines at the San Jacinto project. This planned maintenance program took the unit 3 turbine out of service, limiting our maximum generation to 36 MW (net). While this will impact results somewhat in the third quarter of 2016, we are happy with the results and have no planned downtime for the remainder of 2016. Further commentary is included below under the heading, Turbine Maintenance.

2015/2016 San Jacinto Drilling Program

The Company's wholly-owned subsidiary, Polaris Energy Nicaragua S.A. ("PENSA"), has been engaged in a major drilling program, which began in October 2015 and was substantially completed in July 2016. As of the date of this MD&A all drilling activities have been completed and we are waiting for sufficient natural recharge to occur before connecting new wells to the San Jacinto plant. Further commentary with respect to current status of the 2015/2016 drilling program is provided below.

PENSA commenced drilling of the third and final new production well, SJ 9-4, on June 21, 2016. We successfully realized full drilling fluid losses on July 16, 2016, providing evidence of good permeability, and concluded drilling of SJ 9-4 at 1,525 metres, on July 21, 2016, approximately one week ahead of schedule. Initial measurements of temperature and injectivity are favourable, with temperature having increased from 186°C to 262°C, while well-head pressure has already reached the minimum requirement for connection to the plant. While it is too early to estimate incremental MW contribution, the well has experienced significant temperature increases and was able to successfully flow on its own in a discharge test performed last week, creating optimism with respect to the extent of incremental power generation. We anticipate SJ 9-4 will be ready for connection to the plant in late October 2016, following completion of connection-related infrastructure, which is currently underway.

Prior to drilling production well SJ 9-4, PENSA completed the successful "workover" of four existing injection wells. This process consisted of mechanical clean-out (using the on-site drilling rig) and acid stimulation of existing injection wells, with the objective of increasing injection capacity. The injection well workover portion of the drilling program commenced on April 18, 2016 and concluded 57 days later, on June 12, 2016, 13 days ahead of schedule and approximately $700,000 under budget. Though not directly contributing to incremental power generation, the injection well workover program was a critical component of the 2015/2016 drilling program and enhances our ability to optimize plant operations going forward.

We achieved approximately a 31% overall increase in injection capacity, consistent with expectation, which facilitates the following benefits:

1. Increased injection capacity will accommodate increased volumes of geothermal fluids expected as new production wells come online.
2. Removal of SJ 9-2, an existing in-field injection well, from service, which could facilitate higher average temperatures in the primary production zone, and there is a possibility that it could be converted into a production well, thereby driving incremental generation.
3. Ability to strategically manage geothermal fluid will reduce the need to pump fluids from one location to another, thereby reducing internal power consumption and increasing net power generation.
4. Avoiding use of "ponds" to temporarily store geothermal fluid will result in higher average reinjection temperatures.

As previously reported, PENSA completed drilling of SJ 6-3, the first new production well of the 2015/2016 drilling program, in late December 2015. Thermal recovery of the well is progressing, albeit slowly, and has been aided by our ability to actively discharge the well following the completion of the injection workovers. Temperatures have increased to 217°C and we believe remain on track to achieve the minimum targeted temperature of 220°C. While the well has not yet reached its expected temperature, it is currently connected to the plant and contributing additional steam to improve overall plant generation.

Drilling of the second new well, SJ 14-1, began in January 2016, and was completed in April 2016, with the timeline having been extended past our original target completion date by mechanical issues. We have run a series of tests in order to assess possible use of SJ 14-1 as an injection well for "cold" condensate, which is the waste fluid from the flash turbine process. Further to the importance of the injection well workover program, an ability to strategically reinject condensate will allow us to maximize average reservoir temperatures while accommodating the requisite volume of condensate. We have successfully connected SJ 14-1 as a condensate injection well, which has served to further increase the overall injection capacity of the San Jacinto project, by opening up SJ 12-1 as an injection well for geothermal fluids.

As mentioned above, we are attempting the conversion of an existing injection well, SJ 9-2, into a production well, a possibility that stems directly from success achieved with the injection well workover program. Accordingly, SJ 9-2 has been taken out of service as an injection well, is being allowed to naturally heat-up and will be assessed throughout the third quarter of 2016 in terms of ability to contribute incremental steam to the San Jacinto plant. PENSA has a history of successfully converting two previous injection wells into production wells, which alongside favourable geothermal characteristics, gives us reason to believe that SJ 9-2 can be converted into a production well. We are further attracted to the lack of drilling risk and nominal capital cost associated with the possible conversion of SJ 9-2.

In summary, we are pleased with overall drilling program execution and expect to have more specific commentary with respect to outcome and incremental power generation later in the third quarter of 2016. Based on drilling execution and preliminary measurements, we are optimistic that we will achieve our primary objectives with respect to the 2015/2016 drilling program:

- Successfully drill no less than two new production wells;
- Increase reinjection capacity 20-25% via workover program;
- Complete various general infrastructure updates and improvements at the San Jacinto project.

Turbine Maintenance

As a key component of our overall maintenance plan with respect to the San Jacinto plant, planned shut-down and maintenance of one of the two turbines (unit 3) occurred in the first half of July, 2016. This "minor maintenance" program involved comprehensive cleaning of the turbine and all related infrastructure, which served to reduce maximum generating capacity from 72 MW (net) to 36 MW (net) (and typical generation from 48-50 MW (net) to 36 MW (net)). The maintenance program was successfully completed under budget, taking 13.5 days versus a budget of 16 days, and has resulted in improved overall turbine operation as expected.

During the 13.5-day maintenance period, production wells were shut-in as required, in order to reduce steam flows to the maximum amount accommodated by the operating turbine. We took advantage of the fact that production wells were shut in at certain times to complete a variety of ancillary maintenance and testing activities, leaving us well-positioned for consistent and efficient operating performance through the balance of the year. Minor maintenance of the other turbine at the San Jacinto plant (unit 4) is planned for February, 2017.

Dividend Policy

On August 9, 2016, the Board authorized and declared the Company's second dividend, namely a quarterly dividend of $0.10 per outstanding common share. This dividend will be paid on August 25, 2016 to shareholders of record at the close of business on August 19, 2016.

Consistent with our previously stated dividend policy to pay common share dividends on a quarterly basis based on a target ratio of 40% to 60% of Cash Flow Available for Distribution ("CFAD"), our dividend for the second quarter of 2016 equates to a 51% payout ratio, while on a year-to-date basis, our cumulative dividends equate to a 47% payout ratio. The Company defines CFAD as follows: Adjusted EBITDA less debt service less sustaining capex contribution less cash taxes (if any). The Company views this metric as a conservative means of measuring cash available for distribution, given that in addition to debt service and cash taxes, it allows for cash flow put aside to finance sustaining capital expenditure. Specifically, as part of the May 2015 amendments to the San Jacinto project credit agreements, we agreed to set aside funds for ongoing maintenance capital expenditures, including the drilling of future production and/or injection wells. Our quarterly contribution to this sustaining capex fund is $1.33 million. For the foreseeable future, the Company does not anticipate payment of withholding taxes on repatriation of capital from PENSA, and PENSA is not expected to be subject to Nicaragua income taxes until 2022-2023.

OPERATING PROJECT

San Jacinto-Tizate – San Jacinto, Nicaragua

The Company, through its subsidiary, PENSA, owns and operates a 72 MW (net) capacity geothermal facility. The San Jacinto project is located in northwest Nicaragua, near the city of Leon, approximately 90 km northwest of Managua. The San Jacinto project exploitation agreement covers an area of 40 km^2.

PENSA has a purchase price agreement ("PPA") in place for the San Jacinto project with Nicaraguan power distributors Disnorte-Dissur, subsidiaries of the Spanish utility TSK-Melfosur Internacional. PENSA has entered into the San Jacinto Exploitation Agreement with the Nicaraguan Ministry of Energy and Mines to develop and operate the San Jacinto project. Under the PPA, the company generated 207,113 MWh (average 47.4 MW (net)) and 216,531 MWh (average 49.7 MW (net)) for the six months ended June 30, 2016 and 2015, respectively. These production figures are net of all plant downtime, both planned and unplanned. For the six months ended June 30, 2016 and 2015, the San Jacinto project generated revenue of $24.7 million and $25.2 million, respectively, and Adjusted EBIDTA of $20.2 million and $19.6 million, respectively. *See Use of Non-GAAP Performance Measures section below for reconciliation of Adjusted EBITDA to Total loss and comprehensive loss.*

As at June 30, 2016, PENSA held cash of $2.1 million to fund plant operations, $6.8 million in the Major Maintenance Reserve Account to fund drilling and maintenance activities and $10.8 million held as debt service reserves. During the six months ended June 30, 2016, PENSA repaid $4.2 million of principal on its San Jacinto project credit facilities. As at June 30, 2016, PENSA had $185.3 million outstanding on those credit facilities.

As discussed in detail above, PENSA has undertaken a major drilling program with purpose of bringing power generation at the San Jacinto project as close as possible to the 72 MW (net) capacity level that is covered under the PPA and by the existing plant infrastructure. We anticipate bringing on incremental power generation from new production wells throughout the balance of the third quarter of 2016, and in the meantime are progressing rapidly with pre-feasibility assessments with respect to the addition of a binary unit at the San Jacinto project.

EXPLORATION AND DEVELOPMENT PROPERTIES

Casita Project

The Casita project is located in northwest Nicaragua in the Department of Chinandega. In 2008, through an international bid, Cerro Colorado Power, S.A. ("CCPSA"), a 95% owned subsidiary of the Company, was awarded the Casita Project Exploration Concession (the "Casita Project Exploration Concession") with an area of 100 km^2. The contract for the Casita Project Exploration Concession was signed on March 6, 2009.

In July 2011, the Company commenced drilling of the first slim hole well as a step towards proving the Casita resource viability; the slim hole was drilled to a depth of 842 meters with a total loss of circulation of the drilling fluid. The temperature results obtained and the permeability found to date indicate that the location has the characteristics of a commercial resource, and this information was used in converting the exploration concession to an exploitation concession from the Nicaraguan Ministry of Energy and Mines.

In February 2013, the Company was awarded the exploitation concession for a period of 25 years (extended by law in 2014 to 30 years) and was provided a timetable to sign the formal contract, which the Company is currently in the process of negotiating and expects to finalize in 2016 or 2017.

During the second quarter 2014, the Company finalized an environmental permit required to begin exploitation drilling (the "Environmental Permit") and submitted to the Environmental Permit to a government authority for its approval. During the same period, the Company submitted impact studies required to obtain a generation license to the Nicaraguan and Regional Operators of the Transmission Grid for review and approval. During the second quarter 2015, the Company obtained municipal permits from various municipal councils for the implementation of the Casita project and the Environmental Permit was issued by the Ministry of Environment and Natural Resources.

The Company has entered into discussions with The World Bank Group (the "World Bank") and the Nicaragua Ministry of Energy and Mines with respect to financing for purposes of completing an initial drilling program at the Casita-San Cristobal project. To the extent the Company is able to complete the contemplated financing, it would enable pursuing a drilling campaign at the Casita-San Cristobal project without requiring cash flow from our San Jacinto project, and on a non-recourse basis to both the Company and PENSA. Discussions and preliminary due diligence with the World Bank are ongoing and we will provide further updates as appropriate.

As at June 30, 2016, the Company had $11.1 million in accumulated costs related to the Casita project.

Other Exploration and Development Projects

The Company's Orita geothermal project is located in Imperial County, California, close to the Salton Sea geothermal area. The Company's Clayton Valley geothermal project is located in Esmeralda County, Nevada. The Company's portfolio of geothermal exploration properties also consists of Reese River in Southern California and South Meager Creek in British Columbia.

The Company's above-listed properties were acquired from a variety of sources, including through governmental concessions, BLM lease auctions, and private leaseholders and landowners. The Company is in the process of selling and/or disposing of all of its non-core assets to focus on maximizing the cash flow and profitability of the Company's producing assets in Nicaragua.

SUBSEQUENT EVENTS

Any events occurring between June 30, 2016 and August 9, 2016 related to the Company's projects and operations are incorporated in the "Business Overview and Strategy" section above under the heading "Recent Developments."

FINANCIAL OVERVIEW

Summary of Unaudited Quarterly Results

The information provided below highlights the Company's quarterly results for the past two years.

(in thousands, except for income (loss) per share)	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015
Average production	46.5 MW (net)	48.4 MW (net)	47.7 MW (net)	50.8 MW (net)
Revenue	$ 12,145	$ 12,560	$ 12,101	$ 12,896
Direct cost of energy production	(7,524)	(7,510)	(7,958)	(8,220)
General and administrative expenses	(947)	(943)	(1,236)	(1,009)
Other operating costs	(70)	(43)	29	(417)
Adjusted EBITDA	9,838	10,379	9,427	10,144
Finance costs	(4,239)	(4,247)	(2,515)	(4,467)
Loss on impairment of assets and goodwill	-	-	-	(30,345)
Net loss attributable to owners of the Company	(2,305)	(2,070)	(1,462)	(24,501)
Loss per share (basic and diluted) to owners of the Company	($0.15)	($0.13)	($0.09)	($2.96)
Cash	47,641	56,110	61,592	64,334
Restricted cash	1,508	1,509	1,502	1,505
Total shareholders' equity	197,741	199,794	203,098	204,224

(in thousands, except for income (loss) per share)	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014
Average production	50.6 MW (net)	48.8 MW (net)	52.1 MW (net)	52.2 MW (net)
Revenue	$ 12,817	$ 12,334	$ 12,857	$ 12,883
Direct cost of energy production	(8,363)	(8,146)	(8,209)	(8,424)
General and administrative expenses	(1,886)	(1,165)	(1,667)	(1,422)
Other operating costs	2	(142)	(136)	(556)
Adjusted EBITDA	10,073	9,507	9,452	9,088
Finance costs	2,127	(6,397)	(6,210)	(6,346)
Loss on impairment of assets and goodwill	(10,096)	-	-	-
Net loss attributable to owners of the Company	(9,633)	(2,192)	(7,837)	(3,973)
Loss per share (basic and diluted) to owners of the Company	($51.92)	($11.81)	($42.24)	($21.41)
Cash	71,725	16,885	15,292	16,845
Restricted cash	1,513	431	464	464
Total shareholders' equity	228,125	131,326	133,518	141,355

Review of Results

Three months ended June 30, 2016 versus June 30, 2015

During the three months ended June 30, 2016 and 2015, the San Jacinto project generated average production of 46.5 MW (net) and 50.6 MW (net), respectively. These production figures are net of all plant downtime, both planned and unplanned. The Company's revenue of $12.1 million was down from $12.8 million for the same period in 2015, principally as a result of planned downtime associated with the workover of injection wells, partially offset by the 3% annual tariff increase effective for 2016.

Direct costs of energy production (other than depreciation and amortization) for the three months ended June 30, 2016 of $1.6 million were slightly lower versus the same period in 2015, principally as a result of decreased insurance premiums. Depreciation and amortization expense associated with energy production (included in direct costs) for the three months ended June 30, 2016 of $6.0 million was $0.7 million lower than the same period in 2015, driven by with the decrease in net book value of property, plant and equipment as a result of impairment charges recorded in 2015.

General and administrative expenses for the three months ended June 30, 2016 decreased $0.9 million to $0.95 million from $1.9 million for the three months ended June 30, 2015, principally as a result of a $0.5 million decrease in share-based compensation expense, combined with a $0.4 million decrease in legal costs related to the recapitalization and strategic review process that was under way in early 2015. Costs incurred in the previous year related to the strategic process were expensed while costs directly related to the Private Placement (as defined in the Liquidity and Capital Resources section) were recorded as a reduction to equity in contributed surplus.

For the three months ended June 30, 2016, Adjusted EBITDA totaled $9.8 million, as compared to $10.1 million for the same period in 2015. The decrease was a result of lower contribution from the San Jacinto plant, largely offset by a reduction in general and administrative costs. *See Use of Non-GAAP Performance Measures section below for reconciliation of Adjusted EBITDA to Total loss and comprehensive loss*.

For the three months ended June 30, 2016, finance costs of $4.2 million were recognized, an increase of $6.4 million compared to the three months ended June 30, 2015. This increase was driven by amendments made to the project loans which came into effect in the three months ended June 30, 2015.

The Company recognized a net loss of $2.3 million for the three months ended June 30, 2016 compared to a net loss of $9.6 million for the same period in 2015. The period over period variance is driven by a $10.1 million impairment charge as well as a $3.1 million unrealized foreign exchange loss on the debentures, both recorded during the three months ended June 30, 2015, which more than offset higher finance recorded costs in the current period.

During the three months ended June 30, 2016, the Company incurred costs of $11.1 million for additions to its exploration and development, geothermal properties and property, plant and equipment ("PP&E"), substantially all related to drilling costs at the San Jacinto project.

Six months ended June 30, 2016 versus June 30, 2015

During the six months ended June 30, 2016 and 2015, the San Jacinto project generated average production of 47.4 MW (net) and 49.7 MW (net), respectively. These production figures are net of all plant downtime, both planned and unplanned. The Company's revenue of $24.7 million was down from $25.2 million for the same period in 2015, as a result of the decrease in average production from planned and unplanned downtime, partially offset by the 3% annual tariff increase effective for 2016.

Direct costs of energy production (other than depreciation and amortization) for the six months ended June 30, 2016 of $3.1 million were slightly lower than the same period in 2015, principally as a result of decreased insurance premiums. Depreciation and amortization expense associated with energy production (included in direct costs) for the six months ended June 30, 2016 of $11.9 million was $1.4 million lower than the same period in 2015, driven by with the decrease in net book value of property, plant and equipment as a result of impairment charges recorded in 2015.

General and administrative expenses for the six months ended June 30, 2016 decreased $1.2 million to $1.9 million from $3.1 million for the six months ended June 30, 2015, principally as a result of a $0.8 million decrease in legal costs related to the recapitalization and strategic review process that was under way in early 2015. Costs incurred in the previous year related to the strategic process were expensed while costs directly related to the Private Placement (as defined in the Liquidity and Capital Resources section) were recorded as a reduction to equity in contributed surplus.

For the six months ended June 30, 2016, Adjusted EBITDA totaled $20.2 million, as compared to $19.6 million for the same period in 2015. The increase was a result of a significant reduction in general and administrative costs more than offsetting a $0.3 million decrease in contribution from the San Jacinto plant. *See Use of Non-GAAP Performance Measures section below for reconciliation of Adjusted EBITDA to Total loss and comprehensive loss.*

For the six months ended June 30, 2016, finance costs of $8.5 million were recognized, an increase of $4.2 million compared to the six months ended June 30, 2015. This increase was driven by amendments made to the project loans which came into effect in the six months ended June 30, 2015.

The Company recognized a net loss of $4.4 million for the six months ended June 30, 2016 compared to a net loss of $11.8 million for the same period in 2015. The period over period variance is driven by a $10.1 million impairment charge recorded during the three months ended June 30, 2015, which more than offset higher finance costs recorded in the current period.

During the six months ended June 30, 2016, the Company incurred costs of $19.4 million for additions to its exploration and development, geothermal properties and PP&E with $19.3 million of costs incurred related to the San Jacinto project and $0.1 million in connection with the Casita project.

NON-GAAP PERFORMANCE MEASURES

The following table is derived from and should be read in conjunction with the unaudited interim consolidated statement of operations and comprehensive loss. This supplementary disclosure is intended to more fully explain disclosures related to Adjusted EBITDA and provides additional information related to the operating performance of the Company. Investors are cautioned that this measure should not be construed as an alternative to GAAP consolidated total loss and comprehensive loss.

	Three Months Ended		Six Months Ended	
(in thousands)	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net loss and comprehensive loss attributable to owners of the Company	$ (2,305)	$ (9,633)	$ (4,375)	$ (11,825)
Add (deduct):				
Net loss attributable to non-controlling interest	(19)	-	(36)	-
Current and deferred tax expense	1,760	(711)	3,596	1,130
Finance costs	4,239	(2,127)	8,486	4,270
Interest income	(93)	(21)	(168)	(28)
Other losses (gains)	23	4,968	165	1,810
Impairment loss	-	10,096	-	10,096
Depreciation and amortization of plant assets	5,955	6,681	11,943	13,306
Share-based compensation	278	820	606	820
Adjusted EBITDA	$ 9,838	$ 10,073	$ 20,217	$ 19,579

LIQUIDITY AND CAPITAL RESOURCES

The following is a summary and explanation of the Company's cash flow activities:

	Six Months Ended	
(in thousands)	June 30, 2016	June 30, 2015
Net cash from (used in)		
Operating activites	$ 9,906	$ 11,449
Investing activites	(18,023)	(3,801)
Financing activities	(5,815)	48,785
Foreign exchange gain on cash held in foreign currency	(19)	-
Increase (decrease) in cash	$ (13,951)	$ 56,433

Operating Activities

Net cash from operating activities for the six months ended June 30, 2016 of $9.9 million decreased by $1.5 million from the same period in 2015. The decrease resulted from early revenue collections of $3.6 million in late December 2015, which served to reduce operating cash inflows in the six months ended June 30, 2016 by a corresponding amount, offset by other changes in working capital. The period over period change is not attributable to seasonal fluctuations.

Investing Activities

Net cash used for investing activities during the six months ended June 30, 2016 of $18.0 million increased $14.2 million compared to the same period in 2015. The increased use of cash principally relates to costs incurred in the 2015/2016 San Jacinto drilling program.

The Company remains well capitalized and holds sufficient cash to complete the 2015/2016 San Jacinto drilling program, as well as routine capital expenditures associated with maintaining the San Jacinto project.

Financing Activities

Net cash used for financing activities for six months ended June 30, 2016 of $5.8 million decreased $54.6 million from the same period in 2015. The increased use of cash relates to the proceeds raised in connection with an equity financing and recapitalization transaction with Goodwood Inc. that took

place in 2015 (the "Private Placement"), whereas 2016 has seen more typical financing activities, namely repayment associated with the San Jacinto project credit facilities and payment of the Company's first quarterly dividend.

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 seeking to arrange for it to have sufficient cash, available credit facilities and other financial resources to allow it to meet its obligations. The Company forecasts cash flows for a period of at least 12 months to identify financial requirements.

The following are maturities for the Company's non-derivative and derivative financial liabilities as at June 30, 2016:

(in thousands)	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years	Total
Accounts payable and accrued liabilities	$ 8,055	$ -	$ -	$ -	$ 8,055
Debt, current and long-term	9,983	23,640	32,085	120,405	186,113
Interest obligations	12,848	23,504	19,684	29,199	85,235
	$ 30,886	$ 47,144	$ 51,769	$ 149,604	$ 279,403

The following are annual principal obligations on the San Jacinto project credit facilities for the remaining term of the loans:

(in thousands)	
2016	$ 4,248
2017	9,858
2018	11,857
2019	13,709
2020	16,203
2021	18,055
2022	19,908
2023	21,760
2024	17,074
2025	14,703
2026	13,811
2027	14,534
2028	8,203
2029	1,384
Total	$ 185,307

Interest on the San Jacinto project credit facilities is due and payable quarterly, and is currently estimated to be approximately $3.3 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.

The Company believes operating cash flow will be sufficient to allow the Company to fulfill its current obligations and continue to operate for the foreseeable future. Should additional capital requirements or the replacement of debt be necessary, the Company expects it could satisfy these requirements through debt restructurings, capital raises or asset sales. However, the outcome of these matters cannot be predicted with certainty at this time.

SHARE CAPITAL AND FINANCINGS

As of August 9, 2016, the Company had 15,668,288 common shares outstanding.

As of August 9, 2016, the Company had 52,380,650 outstanding warrants expiring March 22, 2018, with an exercise price of Cdn$600. The warrants issued under the debentures were adjusted as part of the Share Consolidation, resulting in an exchange basis of 2,000 warrants for one common share of the Company. The warrant price was also adjusted from $0.30 to $600 for each common share acquired in connection with the exchange of warrants.

As of August 9, 2016, there were 26,326 outstanding stock options, with a weighted average exercise price of Cdn$66.50 and 3.5 year remaining contractual life. The outstanding stock options' exercise prices range from Cdn$10.00 to Cdn$750.00, and expire from September 2016 to May 2020. Of the outstanding stock options, 10,326 are exercisable. The Company had 166,482 restricted shares outstanding as of August 9, 2016, 3,350 of which are included as part of total issued and outstanding shares of the Company. The Company had 6,452 deferred shares outstanding as of August 9, 2016, 1,613 of which had vested.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Recent Pronouncements Issued and Early Adoption of Standards

The Company has reviewed new and revised accounting pronouncements that have been issued and are effective for periods beginning on or after January 1, 2016. The adoption of these standards did not have a material impact on the Company's results of operations, financial position or disclosures.

Critical accounting estimates

The timely preparation of the consolidated financial statements requires that management make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the period. Such estimates primarily relate to unsettled transactions and events as at the date of the consolidated financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur. Significant estimates and judgments made by management in the preparation of these consolidated financial statements are outlined below.

Critical accounting judgments

Exploration and development properties, geothermal properties, and PP&E are aggregated into cash-generating units ("CGUs") on a project-by-project basis based on their ability to generate largely independent cash flows, and are used for long-lived asset impairment testing. The determination of the Company's CGUs is subject to management's judgment.

The decision to transfer assets from exploration and development to geothermal properties is based on the stages of development of the Company's projects, and management uses judgment, in part based on certification of resource capacity and available financing, to determine a project's technical feasibility and commercial viability. The decision to cease capitalization of costs and transfer assets from geothermal properties to PP&E is based on the asset being in the location and condition necessary for it to be capable of operating in the manner intended by management, and management uses judgment in determining the point at which this has occurred based on the point after the commissioning period at which the asset reaches commercial operation.

Sources of measurement uncertainty

Estimated future cash flows are used in determining the fair value of certain exploration and development properties, geothermal properties and PP&E for use in the final purchase price allocation of business combinations and impairment analysis.

Amounts recorded as decommissioning liabilities are based on estimates of future costs to restore the land and decommission assets at completion of projects, and estimated discount rates. The determination of the costs and discount rates is subject to management's judgment.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of each reporting period to determine the likelihood that they will be realized from future taxable income.

In assessing whether the going concern assumption is appropriate, management must estimate future cash flows for at least twelve months following the end of the reporting period by taking into account available information about the future. Management has considered a wide range of factors relating to expected cash flows from its operating projects, estimated operating and capital expenditures, debt repayment schedules, and potential sources of replacement financing. These cash flow estimates are subject to uncertainty.

CONTROL MATTERS

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining adequate disclosure controls and internal controls over financial reporting as defined under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings of the Canadian Securities Administrators.

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in the Company's annual filings, interim filings, or other reports filed with Canadian securities regulatory authorities is recorded, processed, summarized and reported in a timely fashion. The disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in such reports is then accumulated and communicated to the Company's management, including the Chief Executive Officer and the Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

Based on the evaluation of disclosure controls and procedures, the Chief Executive Officer and the Chief Financial Officer have concluded for the reasons discussed herein that the Company's disclosure controls and procedures and internal controls over financial reporting are effective as at June 30, 2016.

Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting of the Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company's internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the annual or interim financial statements.

RISKS AND UNCERTAINTIES

The risks and uncertainties described in the Company's AIF for the year ended December 31, 2015 are considered by management to be the most important in the context of the Company's business. The risks and uncertainties included in the AIF are not inclusive of all the risks and uncertainties the Company may be subject to and other risks may apply.

The risks and uncertainties discussed in the Company's current AIF and other filings with Canadian provincial securities regulatory authorities should be read in conjunction with the risks and uncertainties discussed throughout this MD&A. The Company's AIF and other filings with Canadian provincial securities regulatory authorities are available on SEDAR at www.sedar.com.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains "forward-looking information" within the meaning of applicable Canadian Securities legislation, which may include, but is not limited to, financial and other projections as well as statements with respect to future events or future performance, management's expectations regarding our growth, results of operations, and business prospects and opportunities. In addition, statements relating to estimates of recoverable geothermal energy "resources" or energy generation capacities are forward-looking information, as they involve implied assessment, based on certain estimates and assumptions, that electricity can be profitably generated from the described geothermal resources in the future. Such forward-looking information reflects management's current beliefs and is based on information currently available to management. Often, but not always, forward-looking statements can be identified by the use of words such as "plan", "expect", "is expected", "budget", "estimates", "goals", "intend", "targets", "aims", "likely", "typically", "potential", "probable", "projects", "continue", "strategy", "proposed", or "believes" or variations (including negative variations) of such words and phrases or may be identified by statements to the effect that certain actions "may", "could", "should", "would" or "shall" be taken, occur or be achieved.

Forward-looking information in this MD&A include among others: estimated CFAD; the future development of the San Jacinto project; additional changes to the steamfield to increase production; the costs of construction of a Binary Unit for the San Jacinto project; development of the Casita project including obtaining the necessary permits and financing to begin exploitation drilling and initial development; potential strategic alternatives and the potential sale of the Company's Orita project, Clayton Valley project and other geothermal and exploration and development properties.

A number of known and unknown risks, uncertainties and other factors may cause the Company's actual results or performance to materially differ from any future results or performance expressed or implied by the forward-looking information. Such factors include, among others: failure to discover and establish economically recoverable and sustainable geothermal resources through the Company's exploration and development programs; imprecise estimation of probability simulations prepared to predict prospective geothermal resources or energy generation capacities; variations in project parameters and production rates; defects and adverse claims in the title to the Company's properties; failure to obtain or maintain necessary licenses, permits and approvals from government authorities; the impact of changes in foreign currency exchange and interest rates; changes in government regulations and policies, including laws governing development, production, taxes, labor standards and occupational health, safety, toxic substances, resource exploitation and other matters; availability of government initiatives to support renewable energy generation; increase in industry competition; fluctuations in the market price of energy; impact of significant capital cost increases; unexpected or challenging geological conditions; changes to regulatory requirements, both regionally and internationally, governing development, geothermal resources, production, exports, taxes, labor standards, occupational health, waste disposal, toxic substances, land use, environmental protection, project safety and other matters; economic, social and political risks arising from potential inability of end-users to support the Company's properties; insufficient insurance coverage; inability to obtain equity or debt financing; fluctuations in the market price of the common shares and warrants of the Company; impact of issuance of additional equity securities on the trading price of the common shares and warrants of the Company; inability to retain key personnel; the risk of volatility in global financial conditions, as well as significant decline in general economic conditions; uncertainty of political stability in Nicaragua; uncertainty of the ability of Nicaragua to sell power to neighboring countries; economic insecurity in Nicaragua; and other development and operating risks, as well as those factors discussed in the section entitled "Risks and Uncertainties" in this MD&A. There may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. These factors are not intended to represent a complete list of the risk factors that could affect the Company. These factors should be considered carefully and readers of this MD&A should not place undue reliance on forward-looking information.

Such forward-looking information is based on a number of material factors and assumptions, including: the Company's historical financial and operating performance; that contracted parties provide goods and/or services on the agreed timeframes; the success and timely completion of planned exploration and expansion programs, including the Company's ability to comply with local, state and federal regulations dealing with operational standards and environmental protection measures; the Company's ability to negotiate and obtain PPAs on favorable terms; the Company's ability to obtain necessary regulatory approvals, permits and licenses in a timely manner; the availability of materials, components or supplies; the Company's ability to solicit competitive bids for drilling operations and obtain access to critical resources; the growth rate in net electricity consumption; continuing support and demand for non-hydroelectric renewables; continuing availability of government initiatives to support the development of renewable energy generation; the accuracy of volumetric reserve estimation methodology and probabilistic analysis used to estimate the quantity of potentially recoverable energy; environmental, administrative or regulatory barriers to the exploration and development of geothermal resources of the Company's properties; geological, geophysical, geochemical and other conditions at the Company's properties; the reliability of technical data, including extrapolated temperature gradient, geophysical and geochemical surveys and geothermometer calculations; the accuracy of capital expenditure estimates; availability of all necessary capital to fund exploration, development and expansion programs; the Company's competitive position; the ability of the Company to continue as a going concern and general economic conditions.

Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking information contained herein is provided as at the date of this MD&A and the Company disclaims any obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise, except as required by applicable laws. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information due to the inherent uncertainty therein.

Additional information about the Company, including the Company's AIF for the year ended December 31, 2015 is available on SEDAR at www.sedar.com and on the Company's website at www.polarisinfrastructure.com.