Unaudited Interim Condensed Consolidated Financial Statements of

Polaris Infrastructure Inc.

March 31, 2017 and 2016

(Expressed in United States dollars)

Polaris Infrastructure Inc.

March 31, 2017 and 2016

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Polaris Infrastructure Inc.

Interim Condensed Consolidated Balance Sheets (Unaudited)

(expressed in United States dollars)

	Note Ref		As at March 31, 2017		As at December 31, 2016
Assets					
Current assets					
Cash	11	$	48,377,877	$	45,739,008
Accounts receivable	9		9,866,406		12,023,281
Prepaid expenses	10		615,133		919,448
			58,859,416		58,681,737
Restricted cash	11		1,505,448		1,504,578
Other assets, net	10		757,244		746,441
Exploration and development properties	12		11,138,800		11,134,821
Geothermal properties	13		1,592,123		4,174,122
Property, plant and equipment, net	14		328,663,655		328,848,542
Intangible assets, net	15		4,105,616		4,157,585
Total assets		$	406,622,302	$	409,247,826
Liabilities and Total Equity					
Current liabilities					
Accounts payable and accrued liabilities	16	$	4,108,541	$	4,114,041
Current portion of long-term debt, net	17		11,157,046		10,646,871
			15,265,587		14,760,912
Other liabilities					
Long-term debt, net	17		163,799,908		166,238,421
Decommissioning liabilities	18		3,719,004		3,707,051
Deferred tax liability, net			32,042,107		29,883,175
Total liabilities			214,826,606		214,589,559
Non-controlling interests	19		(260,590)		(251,372)
Equity attributable to the owners of the Company					
Share capital	19		598,692,253		598,692,253
Contributed surplus	19		12,158,595		11,964,215
Accumulated deficit			(418,794,562)		(415,746,829)
Total equity attributable to the owners of the Company			192,056,286		194,909,639
Total equity			191,795,696		194,658,267
Total liabilities and total equity		$	406,622,302	$	409,247,826

The accompanying notes are an integral part of these interims 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, 2017**	**March 31, 2016**
Revenue	4	$ 13,367,984	$ 12,560,328
Direct costs			
Other direct costs	6	(1,600,221)	(1,522,531)
Depreciation and amortization of plant assets	6	(5,382,702)	(5,987,935)
General and administrative expenses	6	(952,185)	(942,698)
Other operating costs	6	(112,097)	(42,843)
Operating income		5,320,779	4,064,321
Interest income		90,056	74,696
Finance costs	7	(4,295,988)	(4,246,872)
Other losses	8	(132,077)	(142,494)
Income (Loss) and comprehensive income (loss) before income taxes		982,770	(250,349)
Income tax expense		(2,158,935)	(1,836,084)
Total loss and comprehensive loss		$ (1,176,165)	$ (2,086,433)
Total loss and comprehensive loss attributable to:			
Owners of the Company		$ (1,166,947)	$ (2,069,549)
Non-controlling interests		$ (9,218)	$ (16,884)
Basic and diluted loss per share		($0.07)	($0.13)

The accompanying notes are an integral part of these interims 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	Accumulated	Total Attributable to the Owners	Non-Controlling	
	Shares	Amount	Surplus	Deficit	of the Company	Interests	Total Equity
Balance at January 1, 2016	**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 payable	-	-	-	(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 at March 31, 2016	**15,513,157**	**597,710,331**	**12,332,732**	**(410,248,823)**	**199,794,240**	**(225,345)**	**199,568,895**
Share-based compensation	160,121	981,922	(368,517)	-	613,405	-	613,405
Dividends paid	-	-	-	(3,306,650)	(3,306,650)	-	(3,306,650)
Total loss and comprehensive loss	-	-	-	(2,191,355.68)	(2,191,356)	(26,027)	(2,217,383)
Balance at December 31, 2016	**15,673,278**	**598,692,253**	**11,964,215**	**(415,746,829)**	**194,909,639**	**(251,372)**	**194,658,267**
Share-based compensation	-	-	194,380	-	194,380	-	194,380
Dividends paid	-	-	-	(1,880,786)	(1,880,786)	-	(1,880,786)
Total loss and comprehensive loss	-	-	-	(1,166,947)	(1,166,947)	(9,218)	(1,176,165)
Balance at March 31, 2017	**15,673,278**	**$ 598,692,253**	**$ 12,158,595**	**$ (418,794,562)**	**$ 192,056,286**	**$ (260,590)**	**$ 191,795,696**

Polaris Infrastructure Inc.

Interim Condensed Consolidated Statements of Cash Flows (Unaudited)

(expressed in United States dollars)

	Three Months Ended	
	March 31, 2017	**March 31, 2016**
Net inflow (outflow) of cash related to the following activities		
Operating		
Total loss and comprehensive loss attributable to owners of the Company	$ (1,166,947)	$ (2,069,549)
Deduct items not affecting cash:		
Non-controlling interests in net loss of subsidiary	(9,218)	(16,884)
Deferred income tax expense	2,158,935	1,836,084
Finance costs recognized	3,825,524	3,788,682
Depreciation and amortization	5,388,914	6,001,348
Accretion of decommissioning liability	12,334	8,891
Change in decommissioning liabilities	(381)	15,178
Accretion on debt	323,842	336,765
Share-based compensation	191,046	317,059
Unrealized foreign exchange loss	6,180	93,029
Changes in non-cash working capital:		
Accounts receivable	2,156,875	(3,887,762)
Prepaid expenses	304,315	299,037
Accounts payable and accrued liabilities	(646,596)	(348,602)
Interest and return enhancement paid	(3,615,159)	(3,279,175)
	8,929,664	3,094,101
Investing		
Change in restricted cash	(870)	(6,063)
Change in accounts payable and accrued liabilities related to San Jacinto project	639,938	1,923,219
Changes in other assets	(17,015)	(34,179)
Additions to exploration and development	(3,979)	(58,959)
Additions to geothermal properties	(2,292,300)	(8,203,544)
Additions to property, plant and equipment	(271,546)	(44,151)
	(1,945,772)	(6,423,677)
Financing		
Dividend paid	(1,880,786)	-
Repayment of debt	(2,464,438)	(2,124,215)
	(4,345,224)	(2,124,215)
Foreign exchange loss on cash held in foreign currency	201	(28,087)
Net increase (decrease) in cash	2,638,869	(5,481,878)
Cash, beginning of period	45,739,008	61,592,219
Cash, end of period	$ 48,377,877	$ 56,110,341

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

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, 2016.

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 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 9, 2017.

3. 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, 2016, 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 during the year-ended December 31, 2015.

(expressed in United States dollars unless otherwise noted)

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 has not yet evaluated 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 has not yet evaluated the impact of IFRS 16 on its consolidated financial statements.

4. Revenue

Revenue for the three months ended March 31, 2017 and 2016 of $13,367,984 and $12,560,328, 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.

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.

	Three Months Ended	
Revenue	March 31, 2017	March 31, 2016
Canada	$ -	$ -
United States	-	-
Nicaragua	13,367,984	12,560,328
	$ 13,367,984	$ 12,560,328

Comprehensive income (loss)	Three Months Ended	
before income taxes	March 31, 2017	March 31, 2016
Canada	$ (545,177)	$ (524,500)
United States	(70,896)	(45,488)
Nicaragua	1,598,843	319,639
	$ 982,770	$ (250,349)

(expressed in United States dollars unless otherwise noted)

Assets and liabilities		As at March 31, 2017		As at December 31, 2016
Canada	$	22,692,233	$	25,168,235
United States		323,437		377,222
Nicaragua		383,606,632		383,702,369
Total assets	$	406,622,302	$	409,247,826
Canada	$	1,131,548	$	1,114,126
United States		249,898		249,898
Nicaragua		346,381,440		349,202,065
Total non-current assets	$	347,762,886	$	350,566,089
Canada	$	2,241,538	$	2,254,009
United States		2,586,475		2,577,436
Nicaragua		209,998,593		209,758,114
Total liabilities	$	214,826,606	$	214,589,559

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, 2017		March 31, 2016
Depreciation and amortization	$	5,382,702	$	5,987,935
Employee costs		777,284		656,637
General liability insurance		409,565		489,251
Maintenance		398,129		374,714
Other direct costs		15,243		1,929
	$	6,982,923	$	7,510,466

(b) General and administrative expenses

The Company's general and administrative expenses for the three months ended March 31, 2017 and 2016 consisted of:

	Three Months Ended			
		March 31, 2017		March 31, 2016
Salaries and benefits	$	338,688	$	252,798
Share-based compensation		191,046		327,806
Facilities and support		154,254		176,216
Professional fees		159,346		96,667
Taxes and licenses		-		592
Supplier taxes		2,685		6,740
Insurance		104,902		89,898
Depreciation of other assets		6,212		13,413
Other general and adminstrative expenses		500		2,108
Gross general and administrative expenses		957,633		966,238
Total allocation to exploration and development and geothermal properties		(5,448)		(23,540)
Net general and administrative expenses	$	952,185	$	942,698

(expressed in United States dollars unless otherwise noted)

(c) Other operating costs

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, 2017 and 2016 of $112,097 and $42,843, respectively. Other operating costs consist annual lease costs associated with properties not currently under development, as well as associated property tax and consulting costs.

7. Finance costs

The Company's finance costs for the three months ended March 31, 2017 and 2016 consisted of:

	Three Months Ended	
	March 31, 2017	March 31, 2016
Interest on debt	$ 3,825,524	$ 3,788,682
Accretion on debt	323,842	336,765
Accretion of decommissioning liabilities	12,334	8,891
Other finance costs	134,288	112,534
	$ 4,295,988	$ 4,246,872

Cash paid for interest and return enhancement during the three months ended March 31, 2017 and 2016 was $3,615,159 and $3,279,175, respectively.

8. Other gains and losses

The Company's other gains and losses for the three months ended March 31, 2017 and 2016 consisted of:

	Three Months Ended	
	March 31, 2017	March 31, 2016
Foreign exchange losses	$ (133,661)	$ (167,803)
Other gains	1,584	25,309
	$ (132,077)	$ (142,494)

9. Accounts receivable

The Company's accounts receivable of $9,866,406 as at March 31, 2017 and $12,023,281 as at December 31, 2016, 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, 2017	December 31, 2016
Prepaid insurance	$ 185,432	$ 480,512
Other prepaids	429,701	438,936
	$ 615,133	$ 919,448

(b) Other assets, net

	March 31, 2017	December 31, 2016
Fixed assets, net	$ 38,118	$ 44,330
Recoverable taxes	656,430	639,591
Other deposits	62,696	62,520
	$ 757,244	$ 746,441

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 $6,212 and $13,413 was recorded for the three months ended March 31, 2017 and 2016, respectively.

(expressed in United States dollars unless otherwise noted)

11. Restricted cash

		March 31, 2017		December 31, 2016
Casita exploitation application guarantee	$	50,000	$	50,000
San Jacinto guarantees		1,080,000		1,080,000
Reclamation bonds - US and Canada		362,590		361,720
Other restricted cash		12,858		12,858
	$	1,505,448	$	1,504,578

In addition to amounts recorded as restricted cash, cash in the amount of $26,889,945 and $21,856,551 held by the Company as at March 31, 2017 and December 31, 2016, 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, 2016		2017 Additions		Balance at March 31, 2017
Intangible						
Casita	$	11,034,356	$	3,979	$	11,038,335
Total- Intangible		11,034,356		3,979		11,038,335
Tangible						
Casita		100,465		-		100,465
Total-Tangible		100,465		-		100,465
Total Exploration and Development Properties						
Casita	$	11,134,821		3,979		11,138,800
Total	$	11,134,821	$	3,979	$	11,138,800

13. Geothermal properties

Development costs related to the San Jacinto project that are not yet in operation were $1,592,123 as at March 31, 2017 and $4,174,122 at December 31, 2016. The decrease relates to drilling costs for the San Jacinto Project that were placed into service during the first quarter 2017 and transferred to property, plant and equipment.

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, 2016		2017 Activity		2017 Transfers from Geothermal Properties		March 31, 2017
San Jacinto project	$	483,943,381	$	197,705	$	4,874,300	$	489,015,386
Accumulated depreciation		(118,153,498)		(5,330,732)		-		(123,484,230)
Accumulated impairment		(38,940,166)		-		-		(38,940,166)
Spare parts inventory		1,998,825		73,840		-		2,072,665
	$	328,848,542	$	(5,059,187)	$	4,874,300	$	328,663,655

PP&E assets currently in operation are being depreciated on a straight-line basis over the remaining term of their estimated useful lives. Depreciation expense of $5,330,732 and $5,909,018 for the three months ended March 31, 2017 and 2016, 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, for three months ended March 31, 2017 and 2016 was $51,969 and $78,917, respectively

(expressed in United States dollars unless otherwise noted)

16. Accounts payable and accrued liabilities

	March 31, 2017	December 31, 2016
Trade payables	$ 1,005,275	$ 1,672,769
Construction payables	305,644	32,653
Construction accrued liabilities	1,150,929	783,982
Interest payable	522,349	518,061
Other accrued liabilities	1,124,344	1,106,576
	$ 4,108,541	$ 4,114,041

17. Long-term debt, net

	Phase I Senior Debt	Phase I Subordinated Debt	Phase II Senior Debt	Phase II Subordinated Debt	Total Phase I and Phase II Debt	Loan from Former Shareholder	Total
Loans and other borrowings – December 31, 2016	$38,298,077	$13,876,936	$104,877,964	$19,043,199	$176,096,176	$ 789,116	$176,885,292
Capitalized interest expense	-	-	-	-	-	4,203	4,203
Return enhancement	-	86,960	-	114,914	201,874	-	201,874
Accretion of deferred transaction costs	125,217	-	198,626	-	323,843	-	323,843
Repayments of debt	(614,324)	(183,522)	(1,442,700)	(223,892)	(2,464,438)	-	(2,464,438)
Effect of foreign exchange on loans	-	-	-	-	-	6,180	6,180
Loans and other borrowings – March 31, 2017	$37,808,970	$13,780,374	$103,633,890	$18,934,221	$174,157,455	$ 799,499	$174,956,954
Current	$ 2,703,027	$ 807,498	$ 5,931,100	$ 915,922	$ 10,357,547	$ 799,499	$ 11,157,046
Non-current	35,105,943	12,972,876	97,702,790	18,018,299	163,799,908	-	163,799,908
Unamortized transaction costs/return enhacement	2,218,853	(1,337,608)	5,209,810	(1,653,819)	4,437,236	-	4,437,236
Principal balance	$40,027,823	$12,442,766	$108,843,700	$17,280,402	$178,594,691	$ 799,499	$179,394,190
Maturity date	12/15/2024	12/15/2025	12/15/2028	6/15/2029		12/31/2011	

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Phase I Facility		
Interest recorded as financing cost	$ 1,192,902	$ 1,176,871
Accretion recorded as financing cost	125,217	129,967
Phase II Facility		
Interest recorded as financing cost	2,628,419	2,607,660
Accretion recorded as financing cost	198,625	206,798
Other		
Interest recorded as financing cost	4,203	4,151
Total		
Interest recorded as financing cost	$ 3,825,524	$ 3,788,682
Accretion recorded as financing cost	323,842	336,765

(a) Credit agreements

Summary of Phase I and Phase II Credit Agreements

As at March 31, 2017 and 2016, interest rates on the Phase I senior facilities (the “Phase I Senior Debt”) were 7.63% and 7.13%, respectively. Interest on the Phase I subordinated facility (the “Phase I Subordinated Debt”) is fixed at 6% annually.

As at March 31, 2017 and 2016, interest rates on the Phase II senior facility (the “Phase II Senior Debt”) were 7.63% and 7.13%, 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, 2017, 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, 2017 and December 31, 2016.

(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, 2017, 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, 2017 and 2016.

18. Decommissioning liabilities

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

	South Meager	Orita	Sierra	Total
December 31, 2016	$ 1,160,731	$ 1,757,650	$ 788,670	$ 3,707,051
Revision in estimate	319	(483)	(217)	(381)
Accretion	2,467	6,811	3,056	12,334
March 31, 2017	$ 1,163,517	$ 1,763,978	$ 791,509	$ 3,719,004

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

	Undiscounted Costs		Discount Rates	
	March 31, 2017	December 31, 2016	March 31, 2017	December 31, 2016
South Meager	1,190,676	1,190,676	0.84%	0.85%
Orita	1,841,147	1,841,147	1.56%	1.55%
Sierra	1,094,032	1,094,032	1.56%	1.55%

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, 2015	15,513,157	15,513,157	2,451	26,191	77,566
Stock options forfeited or expired	-	-	(2,183)	-	-
Stock options vested	-	-	8,000	-	-
RSUs and DSUs granted	160,775	160,775	-	-	(77,566)
Shares canceled	(654)	(654)	-	-	-
Balance at December 31, 2016	15,673,278	15,673,278	8,268	26,191	-
Stock options forfeited or expired	-	-	(40)	-	-
Balance at March 31, 2017	15,673,278	15,673,278	8,228	26,191	-

(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.

(expressed in United States dollars unless otherwise noted)

The following table reconciles stock options outstanding as at March 31, 2017 and December 31, 2016:

	For the three months ended March 31, 2017	Weighted Average Exercise Price	For the year ended December 31, 2016	Weighted Average Exercise Price (CDN)
Balance at beginning of period	171,397	$ 14.65	26,451	$ 70.54
Granted during the period	-	-	147,129	14.60
Forfeited during the period	(40)	460.00	(1,538)	648.56
Expired during the period	-	-	(645)	782.95
Balance at end of period	171,357	$ 14.65	171,397	$ 14.65

The following table summarizes the information related to stock options outstanding as at March 31, 2017:

Range $CDN	Number of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price ($CDN)	Number of Options Outstanding	Weighted Average Exercise Price ($CDN)
0.00 - 99.99	171,129	3.9	$ 13.95	8,000	$ 10.00
100.00 - 999.99	228	0.6	460.00	228	460.00
	171,357	3.9	$ 14.55	8,228	$ 22.47

For the three months ended March 31, 2017 and 2016, the Company recognized shared-based compensation expense associated with options, with a corresponding increase in contributed surplus, of $58,528 and $19,521, respectively.

There are no performance criteria associated with restricted share units (“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 the vesting period, and the Company recognized shared-based compensation expense associated with RSUs, with a corresponding increase in contributed surplus, of $135,852 and $297,538 for the three months ended March 31, 2017 and 2016, respectively.

Deferred share units (“DSUs”) granted to directors of the Company may be redeemed 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, 2017, the Company recognized share-based compensation of ($3,335), which reflects the reduction in fair value of the share-based compensation liability. 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, 2017	Three Months Ended March 31, 2016
Total loss and comprehensive loss attributable to owners of the Company	$ (1,166,947)	$ (2,069,549)
Basic weighted average number of shares outstanding	15,673,278	15,513,157
Basic loss per share	($0.07)	($0.13)

(expressed in United States dollars unless otherwise noted)

	Three Months Ended			
		March 31, 2017		March 31, 2016
Total loss and comprehensive loss attributable to owners of the Company	$	(1,166,947)	$	(2,069,549)
Diluted weighted average number of shares outstanding		15,685,094		15,513,157
Diluted loss per share		($0.07)		($0.13)

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

	Three Months Ended	
	March 31, 2017	March 31, 2016
Stock options - 5/15/2015 grant date	-	24,000
Stock options - 11/16/2012 grant date	268	268
Deferred stock units	4,839	6,452
Warrants	26,191	26,191
Total anti-dilutive instruments	31,298	56,911

(d) 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, 2017 and 2016 were $9,218 and $16,884, respectively.

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, 2017		March 31, 2016
Short-term employee benefits	$	135,751	$	114,944
Share-based payment		190,671		327,806
Total key management compensation	$	326,422	$	442,750

21. Commitments

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

		March 31, 2017
No later than one year	$	-
For years 2 - 5		120,000
Thereafter		300,000
Total commitments for expenditures	$	420,000

Non-cancelable operating lease commitments

		March 31, 2017
No later than one year	$	46,840
For years 2 - 5		15,690
Thereafter		-
Total operating lease commitments	$	62,530

22. Contingencies

Legal proceedings

PENSA is 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, 2017.

23. Financial instruments and risk management

(a) Fair value of financial assets and liabilities

As at March 31, 2017 and December 31, 2016, 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.

(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, 2017 was 7.63%. 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 $37,218 in financing costs for the three months ended March 31, 2017.

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, 2017, the Company had net Canadian dollar denominated accounts payable and long-term debt of CDN$1,180,033 (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 $88,573 for the three months ended March 31, 2017. 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.

(expressed in United States dollars unless otherwise noted)

The Company deposits its cash with reputable financial institutions, for which management believes the risk of loss to be remote. The Company's accounts receivable relate to PENSA's PPA with the Nicaraguan power distributors Disnorte and Dissur. As both Disnorte and Dissur are subsidiaries of the same company, currently PENSA has a concentration of credit risk. 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.

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, 2017 and December 31, 2016 was $9,866,406 and $12,023,281, 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, 2017:

	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years	Total
Accounts payable and accrued liabilities	$ 4,108,541	$ -	$ -	$ -	$ 4,108,541
Debt, current and long-term	11,157,047	26,652,678	35,184,186	106,400,279	179,394,190
Interest obligations	13,053,357	23,508,806	18,924,731	24,378,272	79,865,166
	$ 28,318,945	$50,161,484	$54,108,917	$ 130,778,551	$263,367,897

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.

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.