

Unaudited Interim Condensed Consolidated Financial  
Statements of

**Polaris Infrastructure Inc.**

June 30, 2017 and 2016

(Expressed in United States dollars)

# **Polaris Infrastructure Inc.**

June 30, 2017 and 2016

## **Table of Contents**

Interim Condensed Consolidated Balance Sheets.....	1
Interim Condensed Consolidated Statements of Operations and Comprehensive Earnings (Loss).....	2
Interim Condensed Consolidated Statements of Changes in Total Equity .....	3
Interim Condensed Consolidated Statements of Cash Flows .....	4
Notes to the Interim Condensed Consolidated Financial Statements .....	5-16

# Polaris Infrastructure Inc.

## Interim Condensed Consolidated Balance Sheets (Unaudited)

(expressed in United States dollars)

	Note Ref	As at June 30, 2017	As at December 31, 2016
<b>Assets</b>			
<b>Current assets</b>			
Cash	11	\$ 43,998,886	\$ 45,739,008
Accounts receivable	9	12,532,105	12,023,281
Prepaid expenses	10	1,221,453	919,448
		<u>57,752,444</u>	<u>58,681,737</u>
Restricted cash	11	1,508,447	1,504,578
Other assets, net	10	767,296	746,441
Exploration and development properties	12	11,187,209	11,134,821
Geothermal properties	13	8,955,693	4,174,122
Property, plant and equipment, net	14	324,039,649	328,848,542
Intangible assets, net	15	4,053,646	4,157,585
<b>Total assets</b>		<u>\$ 408,264,384</u>	<u>\$ 409,247,826</u>
<b>Liabilities and Total Equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	16	\$ 7,692,813	\$ 4,114,041
Current portion of long-term debt, net	17	11,682,415	10,646,871
		<u>19,375,228</u>	<u>14,760,912</u>
<b>Other liabilities</b>			
Long-term debt, net	17	161,342,106	166,238,421
Decommissioning liabilities	18	3,724,064	3,707,051
Deferred tax liability, net		34,062,516	29,883,175
<b>Total liabilities</b>		<u>218,503,914</u>	<u>214,589,559</u>
Non-controlling interests	19	(236,530)	(251,372)
<b>Equity attributable to the owners of the Company</b>			
Share capital	19	598,692,253	598,692,253
Contributed surplus	19	10,791,349	11,964,215
Accumulated deficit		(419,486,602)	(415,746,829)
<b>Total equity attributable to the owners of the Company</b>		<u>189,997,000</u>	<u>194,909,639</u>
<b>Total equity</b>		<u>189,760,470</u>	<u>194,658,267</u>
<b>Total liabilities and total equity</b>		<u>\$ 408,264,384</u>	<u>\$ 409,247,826</u>

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 Earnings (Loss) (Unaudited)**

(expressed in United States dollars)

	Note Ref	Three Months Ended		Six Months Ended	
		June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Revenue	4	\$ 15,913,061	\$ 12,145,050	\$ 29,281,045	\$ 24,705,378
Direct costs					
Other direct costs	6	(1,548,867)	(1,568,945)	(3,149,088)	(3,091,476)
Depreciation and amortization of plant assets	6	(5,414,569)	(5,954,647)	(10,797,271)	(11,942,582)
General and administrative expenses	6	(1,320,001)	(947,012)	(2,272,186)	(1,889,710)
Other operating costs	6	(88,871)	(69,678)	(200,968)	(112,521)
Operating income		7,540,753	3,604,768	12,861,532	7,669,089
Interest income		148,651	92,882	238,707	167,578
Finance costs	7	(4,353,890)	(4,239,166)	(8,649,878)	(8,486,038)
Other losses	8	(102,300)	(22,824)	(234,377)	(165,318)
Earnings (Loss) and comprehensive earnings (loss) before income taxes		3,233,214	(564,340)	4,215,984	(814,689)
Income tax expense		(2,020,410)	(1,760,394)	(4,179,345)	(3,596,478)
Total earnings (loss) and comprehensive earnings (loss)		\$ 1,212,804	\$ (2,324,734)	\$ 36,639	\$ (4,411,167)
Total earnings (loss) and comprehensive earnings (loss) attributable to:					
Owners of the Company		\$ 1,188,744	\$ (2,305,355)	\$ 21,797	\$ (4,374,904)
Non-controlling interests		\$ 24,060	\$ (19,379)	\$ 14,842	\$ (36,263)
Basic and diluted earnings (loss) per share		\$0.08	(\$0.15)	\$0.00	(\$0.28)

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					
<b>Balance at January 1, 2016</b>	<b>15,513,157</b>	<b>\$ 597,710,331</b>	<b>\$ 12,015,673</b>	<b>\$ (406,627,958)</b>	<b>\$ 203,098,046</b>	<b>\$ (208,461)</b>	<b>\$ 202,889,585</b>
Share-based compensation	155,131	938,764	(354,311)	-	584,453	-	584,453
Dividends payable	-	-	-	(1,566,756)	(1,566,756)	-	(1,566,756)
Total loss and comprehensive loss	-	-	-	(4,374,904)	(4,374,904)	(36,263)	(4,411,167)
<b>Balance at June 30, 2016</b>	<b>15,668,288</b>	<b>598,649,095</b>	<b>11,661,362</b>	<b>(412,569,618)</b>	<b>197,740,839</b>	<b>(244,724)</b>	<b>197,496,115</b>
Share-based compensation	4,990	43,157	302,854	-	346,011	-	346,011
Dividends paid	-	-	-	(3,291,210)	(3,291,210)	-	(3,291,210)
Total earnings (loss) and comprehensive earnings (loss)	-	-	-	113,999	113,999	(6,648)	107,351
<b>Balance at December 31, 2016</b>	<b>15,673,278</b>	<b>598,692,253</b>	<b>11,964,215</b>	<b>(415,746,829)</b>	<b>194,909,639</b>	<b>(251,372)</b>	<b>194,658,267</b>
Share-based compensation	-	-	(1,172,866)	-	(1,172,866)	-	(1,172,866)
Dividends paid	-	-	-	(3,761,570)	(3,761,570)	-	(3,761,570)
Total earnings and comprehensive earnings	-	-	-	21,797	21,797	14,842	36,639
<b>Balance at June 30, 2017</b>	<b>15,673,278</b>	<b>\$ 598,692,253</b>	<b>\$ 10,791,349</b>	<b>\$ (419,486,602)</b>	<b>\$ 189,997,000</b>	<b>\$ (236,530)</b>	<b>\$ 189,760,470</b>

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)

	Six Months Ended	
	June 30, 2017	June 30, 2016
Net inflow (outflow) of cash related to the following activities		
Operating		
Total earnings (loss) and comprehensive earnings (loss) attributable to owners of the Company	\$ 21,797	\$ (4,374,904)
Deduct items not affecting cash:		
Non-controlling interests in net loss of subsidiary	14,842	(36,263)
Deferred income tax expense	4,179,345	3,596,478
Finance costs recognized	7,696,605	7,567,473
Depreciation and amortization	10,809,514	11,963,753
Accretion of decommissioning liability	24,743	14,537
Change in decommissioning liabilities	(7,730)	23,083
Accretion on debt	643,730	670,311
Share-based compensation	816,713	605,863
Unrealized foreign exchange loss	27,564	90,479
Changes in non-cash working capital:		
Accounts receivable	(508,824)	(3,479,697)
Prepaid expenses	(302,005)	(479,467)
Accounts payable and accrued liabilities	(1,100,411)	349,915
Interest and return enhancement paid	(7,326,628)	(6,605,926)
	<u>14,989,255</u>	<u>9,905,635</u>
Investing		
Change in restricted cash	(3,869)	(5,718)
Change in accounts payable and accrued liabilities related to San Jacinto project	2,714,102	1,457,172
Changes in other assets	(33,099)	(52,055)
Additions to exploration and development	(52,388)	(75,669)
Additions to geothermal properties	(9,304,738)	(18,582,437)
Additions to property, plant and equipment	(1,361,271)	(763,713)
	<u>(8,041,263)</u>	<u>(18,022,420)</u>
Financing		
Dividends paid	(3,761,570)	(1,566,756)
Repayment of debt	(4,928,877)	(4,248,432)
	<u>(8,690,447)</u>	<u>(5,815,188)</u>
Foreign exchange loss on cash held in foreign currency	2,333	(19,215)
Net decrease in cash	(1,740,122)	(13,951,188)
Cash, beginning of period	45,739,008	61,592,219
Cash, end of period	<u>\$ 43,998,886</u>	<u>\$ 47,641,031</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

June 30, 2017 and 2016 (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"), 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. 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 August 8, 2017.

### 3. Summary of significant accounting policies

#### *Principles of consolidation*

These interim condensed 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 early adopted IFRS 9 during the year-ended December 31, 2015.

# Polaris Infrastructure Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2017 and 2016 (unaudited)

(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 June 30, 2017 and 2016 of \$15,913,061 and \$12,145,050, respectively, and for the six months ended June 30, 2017 and 2016 of \$29,281,045 and \$24,705,378, 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.

Revenue	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Canada	\$ -	\$ -	\$ -	\$ -
United States	-	-	-	-
Nicaragua	15,913,061	12,145,050	29,281,045	24,705,378
	\$ 15,913,061	\$ 12,145,050	\$ 29,281,045	\$ 24,705,378

Comprehensive income (loss) before income taxes	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Canada	\$ (896,177)	\$ (473,506)	\$ (1,441,354)	\$ (998,004)
United States	(80,989)	(42,465)	(151,885)	(87,953)
Nicaragua	4,210,380	(48,369)	5,809,223	271,268
	\$ 3,233,214	\$ (564,340)	\$ 4,215,984	\$ (814,689)



# Polaris Infrastructure Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2017 and 2016 (unaudited)

(expressed in United States dollars unless otherwise noted)

<b>Assets and liabilities</b>	As at	
	June 30, 2017	December 31, 2016
Canada	\$ 20,296,703	\$ 25,168,235
United States	269,653	377,222
Nicaragua	387,698,028	383,702,369
<b>Total assets</b>	<b>\$ 408,264,384</b>	<b>\$ 409,247,826</b>
Canada	\$ 1,150,013	\$ 1,114,126
United States	249,898	249,898
Nicaragua	349,112,029	349,202,065
<b>Total non-current assets</b>	<b>\$ 350,511,940</b>	<b>\$ 350,566,089</b>
Canada	\$ 4,226,205	\$ 2,254,009
United States	2,598,359	2,577,436
Nicaragua	211,679,350	209,758,114
<b>Total liabilities</b>	<b>\$ 218,503,914</b>	<b>\$ 214,589,559</b>

### 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		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Depreciation and amortization	\$ 5,414,569	\$ 5,954,647	\$ 10,797,271	\$ 11,942,582
Employee costs	637,013	725,942	1,414,297	1,382,579
General liability insurance	408,080	431,736	817,645	920,987
Maintenance	502,335	404,123	900,464	778,837
Other direct costs	1,439	7,144	16,682	9,073
	<b>\$ 6,963,436</b>	<b>\$ 7,523,592</b>	<b>\$ 13,946,359</b>	<b>\$ 15,034,058</b>

#### (b) General and administrative expenses

The Company's general and administrative expenses for the three and six months ended June 30, 2017 and 2016 consisted of:

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Salaries and benefits	\$ 326,866	\$ 366,883	\$ 665,554	\$ 619,681
Share-based compensation	625,667	278,057	816,713	605,863
Facilities and support	102,535	111,306	256,789	287,522
Professional fees	150,190	127,394	309,536	224,061
Supplier taxes	766	1,469	3,451	8,209
Insurance	100,646	75,224	205,548	165,122
Depreciation of other assets	6,032	7,758	12,244	21,171
Other general and administrative expenses	1,850	1,951	2,351	4,651
<b>Gross general and administrative expenses</b>	<b>1,314,552</b>	<b>970,042</b>	<b>2,272,186</b>	<b>1,936,280</b>
Total allocation to exploration and development and geothermal properties	5,449	(23,030)	-	(46,570)
<b>Net general and administrative expenses</b>	<b>\$ 1,320,001</b>	<b>\$ 947,012</b>	<b>\$ 2,272,186</b>	<b>\$ 1,889,710</b>

# Polaris Infrastructure Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2017 and 2016 (unaudited)

(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 June 30, 2017 and 2016 of \$88,871 and \$69,678, respectively, and for the six months ended June 30, 2017 and 2016 of \$200,968 and \$112,521, 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 and six months ended June 30, 2017 and 2016 consisted of:

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Interest on debt	\$ 3,871,081	\$ 3,778,791	\$ 7,696,605	\$ 7,567,473
Accretion on debt	319,888	333,546	643,730	670,311
Accretion of decommissioning liabilities	12,409	5,647	24,743	14,538
Other finance costs	150,512	121,182	284,800	233,716
	\$ 4,353,890	\$ 4,239,166	\$ 8,649,878	\$ 8,486,038

Cash paid for interest and return enhancement during the three months ended June 30, 2017 and 2016 was \$3,711,469 and \$3,326,751. Cash paid for interest and return enhancement during the six months ended June 30, 2017 and 2016 was \$7,326,628 and \$6,605,926.

### 8. Other gains and losses

The Company's other gains and losses for the three and six months ended June 30, 2017 and 2016 consisted of:

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Foreign exchange losses	\$ (102,000)	\$ (77,405)	\$ (235,661)	\$ (245,208)
Gain on disposal of assets	-	69,500	-	69,500
Other gains (losses)	(300)	(14,919)	1,284	10,390
	\$ (102,300)	\$ (22,824)	\$ (234,377)	\$ (165,318)

### 9. Accounts receivable

The Company's accounts receivable of \$12,532,105 as at June 30, 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

	June 30, 2017	December 31, 2016
Prepaid insurance	\$ 903,190	\$ 480,512
Other prepaids	318,263	438,936
	\$ 1,221,453	\$ 919,448

# Polaris Infrastructure Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2017 and 2016 (unaudited)

(expressed in United States dollars unless otherwise noted)

### (b) Other assets, net

	June 30, 2017	December 31, 2016
Fixed assets, net	\$ 32,086	\$ 44,330
Recoverable taxes	671,908	639,591
Other deposits	63,302	62,520
	<u>\$ 767,296</u>	<u>\$ 746,441</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 \$12,244 and \$21,171 was recorded for the six months ended June 30, 2017 and 2016, respectively.

### 11. Restricted cash

	June 30, 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	365,590	361,720
Other restricted cash	12,857	12,858
	<u>\$ 1,508,447</u>	<u>\$ 1,504,578</u>

In addition to amounts recorded as restricted cash, cash in the amount of \$25,209,566 and \$21,856,551 held by the Company as at June 30, 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 June 30, 2017
Intangible			
Casita	\$ 11,034,356	\$ 52,388	\$ 11,086,744
Total- Intangible	11,034,356	52,388	11,086,744
Tangible			
Casita	100,465	-	100,465
Total-Tangible	100,465	-	100,465
Total Exploration and Development Properties			
Casita	\$ 11,134,821	52,388	11,187,209
Total	<u>\$ 11,134,821</u>	<u>\$ 52,388</u>	<u>\$ 11,187,209</u>

### 13. Geothermal properties

Development costs related to the San Jacinto project that are not yet in operation were \$8,995,693 as at June 30, 2017 and \$4,174,122 at December 31, 2016. 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, 2016	2017 Activity	2017 Transfers from Geothermal Properties	June 30, 2017
San Jacinto project	\$ 483,943,381	\$ 287,341	\$ 4,523,167	\$ 488,753,889
Accumulated depreciation	(118,153,498)	(10,693,331)	-	(128,846,829)
Accumulated impairment	(38,940,166)	-	-	(38,940,166)
Spare parts inventory	1,998,825	1,073,930	-	3,072,755
	<u>\$ 328,848,542</u>	<u>\$ (9,332,060)</u>	<u>\$ 4,523,167</u>	<u>\$ 324,039,649</u>

# Polaris Infrastructure Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2017 and 2016 (unaudited)

(expressed in United States dollars unless otherwise noted)

Property, plant and equipment currently in operation are being depreciated on a straight-line basis over the remaining term of their estimated useful lives. Depreciation expense of \$10,693,331 and \$11,784,748 for the six months ended June 30, 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 the six months ended June 30, 2017 and 2016 was \$103,939 and \$157,834, respectively

### 16. Accounts payable and accrued liabilities

	June 30, 2017	December 31, 2016
Trade payables	\$ 276,885	\$ 1,672,769
Construction payables	1,596,298	32,653
Construction accrued liabilities	1,934,439	783,982
Interest payable	491,227	518,061
Other accrued liabilities	3,393,964	1,106,576
	<b>\$ 7,692,813</b>	<b>\$ 4,114,041</b>

### 17. Long-term debt, net

	Phase I		Phase II		Total Phase I and Phase II Debt	Loan from Former Shareholder	
	Phase I Senior Debt	Subordinated Debt	Phase II Senior Debt	Subordinated Debt		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
Accrued interest expense	-	-	-	-	-	8,396	8,396
Return enhancement	-	167,117	-	221,299	388,416	-	388,416
Accretion of deferred transaction costs	248,834	-	394,896	-	643,730	-	643,730
Repayments of debt	(1,228,648)	(367,045)	(2,885,400)	(447,784)	(4,928,877)	-	(4,928,877)
Effect of foreign exchange on loans	-	-	-	-	-	27,564	27,564
Loans and other borrowings – June 30, 2017	\$37,318,263	\$13,677,008	\$102,387,460	\$18,816,714	\$172,199,445	\$ 825,076	\$173,024,521
Current	\$ 2,948,756	\$ 880,907	\$ 6,091,400	\$ 936,276	\$ 10,857,339	\$ 825,076	\$ 11,682,415
Non-current	34,369,507	12,796,101	96,296,060	17,880,438	161,342,106	-	161,342,106
Unamortized transaction costs/return enhancement	2,095,236	(1,417,764)	5,013,540	(1,760,204)	3,930,808	-	3,930,808
Principal balance	\$39,413,499	\$12,259,244	\$107,401,000	\$17,056,510	\$176,130,253	\$ 825,076	\$176,955,329
Maturity date	12/15/2024	12/15/2025	12/15/2028	6/15/2029		12/31/2011	

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
<b>Phase I Facility</b>				
Interest recorded as financing cost	\$ 1,202,673	\$ 1,170,950	\$ 2,395,575	\$ 2,347,821
Accretion recorded as financing cost	123,617	128,786	248,834	258,753
<b>Phase II Facility</b>				
Interest recorded as financing cost	2,664,215	2,603,488	5,292,634	5,211,148
Accretion recorded as financing cost	196,271	204,760	394,896	411,558
<b>Other</b>				
Interest recorded as financing cost	4,193	4,353	8,396	8,504
<b>Total</b>				
Interest recorded as financing cost	\$ 3,871,081	\$ 3,778,791	\$ 7,696,605	\$ 7,567,473
Accretion recorded as financing cost	319,888	333,546	643,730	670,311

#### (a) Credit agreements

As at June 30, 2017 and 2016, interest rates on the Phase I and Phase II senior facilities were 7.75% and 7.15%, respectively. Interest on the Phase I and Phase II subordinated facilities is fixed at 6% annually.

# Polaris Infrastructure Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2017 and 2016 (unaudited)

(expressed in United States dollars unless otherwise noted)

All debt drawn on the Phase I and II Credit Agreements is non-recourse to the Company and all of its subsidiaries other than PENSA and SJPIC.

### (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 June 30, 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 six months ended June 30, 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		(8,947)		840		377	(7,730)
Accretion		4,910		13,690		6,143	24,743
June 30, 2017	\$	1,156,694	\$	1,772,180	\$	795,190	\$ 3,724,064

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

	Undiscounted Costs	Discount Rates	
		June 30, 2017	December 31, 2016
South Meager	1,190,676	1.16%	0.85%
Orita	1,841,147	1.53%	1.55%
Sierra	1,094,032	1.53%	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	-	-	(68)	-	-
RSUs and DSUs granted	-	-	8,000	-	81,566
Balance at June 30, 2017	15,673,278	15,673,278	16,200	26,191	81,566

### (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 June 2017, 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.

# Polaris Infrastructure Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2017 and 2016 (unaudited)

(expressed in United States dollars unless otherwise noted)

The following table reconciles stock options outstanding as at June 30, 2017 and December 31, 2016:

	For the six months ended June 30, 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	(68)	460.00	(1,538)	648.56
Expired during the period	-	-	(645)	782.95
Balance at end of period	171,329	\$ 14.48	171,397	\$ 14.65

The following table summarizes the information related to stock options outstanding as at June 30, 2017:

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	171,129	3.8	\$ 13.95	16,000	\$ 10.00
100.00 - 999.99	200	0.4	460.00	200	460.00
	171,329	3.8	\$ 14.48	16,200	\$ 15.56

For the six months ended June 30, 2017 and 2016, the Company recognized share-based compensation expense associated with options, with a corresponding increase in contributed surplus, of \$100,959 and \$35,830, respectively.

There are no performance criteria associated with restricted share units ("RSUs"). During the second quarter 2017, the Company revised its RSU agreements, allowing the participant to elect to receive either shares or a cash equivalent amount in exchange for the RSUs after each vesting date. As a result, the Company recorded a liability in connection with the RSUs, which will be remeasured to the fair value of the RSUs 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. The Company recognized share-based compensation expense associated with RSUs of \$706,806 and \$548,623 for the six months ended June 30, 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 six months ended June 30, 2017 and 2016, the Company recognized share-based compensation of \$8,948 and \$21,410, respectively, which includes recognition of the grant date fair value and the change in fair value of the share-based compensation liability.

### (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:

# Polaris Infrastructure Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2017 and 2016 (unaudited)

(expressed in United States dollars unless otherwise noted)

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Total earnings (loss) and comprehensive earnings (loss) attributable to owners of the Company	\$ 1,188,744	\$ (2,305,355)	\$ 21,797	\$ (4,374,904)
Basic weighted average number of shares outstanding	15,673,278	15,596,749	15,673,278	15,554,953
Basic earnings (loss) per share	\$0.08	(\$0.15)	\$0.00	(\$0.28)

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Total earnings (loss) and comprehensive earnings (loss) attributable to owners of the Company	\$ 1,188,744	\$ (2,305,355)	\$ 21,797	\$ (4,374,904)
Diluted weighted average number of shares outstanding	15,693,452	15,596,749	15,689,336	15,554,953
Diluted earnings (loss) per share	\$0.08	(\$0.15)	\$0.00	(\$0.28)

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

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Stock options - 5/15/2015 grant date	-	24,000	-	24,000
Stock options - 11/16/2012 grant date	200	200	200	200
Deferred stock units	-	4,839	4,839	4,839
Warrants	26,191	26,191	26,191	26,191
Total anti-dilutive instruments	26,391	55,230	31,230	55,230

### (e) Non-controlling interests

The Company owns 99.34% of Polaris Energy Corp ("PEC"), while PEC owns 95% of Cerro Colorado Corp. ("CCC"), both of which are Panamanian companies. CCC owns 90% of Cerro Colorado Power S.A., a Nicaraguan company, which holds the concession to the Casita geothermal project. Earnings attributed to the non-controlling interest owners in these subsidiaries for the six months ended June 30, 2017 and 2016 were \$14,842 and \$(36,263), respectively.

### 20. Related party transactions

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

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Short-term employee benefits	\$ 142,127	\$ 129,085	\$ 277,878	\$ 244,029
Share-based payment	186,350	278,057	377,021	605,863
Total key management compensation	\$ 328,477	\$ 407,142	\$ 654,899	\$ 849,892

# Polaris Infrastructure Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2017 and 2016 (unaudited)

(expressed in United States dollars unless otherwise noted)

### 21. Commitments

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

<b>Geothermal property lease commitments</b>		June 30, 2017
No later than one year	\$	-
For years 2 - 5		120,000
Thereafter		300,000
Total commitments for expenditures	\$	420,000

  

<b>Non-cancelable operating lease commitments</b>		June 30, 2017
No later than one year	\$	31,226
For years 2 - 5		15,690
Thereafter		-
Total operating lease commitments	\$	46,916

### 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 June 30, 2017.

### 23. Financial instruments and risk management

#### (a) Fair value of financial assets and liabilities

As at June 30, 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 June 30, 2017 was 7.75%. 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 \$73,407 in financing costs for the six months ended June 30, 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 June 30, 2017, the Company had net



# Polaris Infrastructure Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2017 and 2016 (unaudited)

(expressed in United States dollars unless otherwise noted)

Canadian dollar denominated accounts payable and long-term debt of CDN\$577,760 (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 \$44,522 for the six months ended June 30, 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.

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 June 30, 2017 and December 31, 2016 was \$12,532,105 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 June 30, 2017:

	Less than 1		More than 5		
	Year	1-3 Years	4-5 Years	Years	Total
Accounts payable and accrued liabilities	\$ 7,692,813	\$ -	\$ -	\$ -	\$ 7,692,813
Debt, current and long-term	11,682,416	27,739,154	36,110,362	101,423,397	176,955,329
Interest obligations	13,024,681	23,304,393	18,495,660	22,662,158	77,486,892
	\$ 32,399,910	\$51,043,547	\$54,606,022	\$ 124,085,555	\$262,135,034

Interest on the San Jacinto Project credit facilities is due and payable quarterly, and is currently estimated to be approximately \$3.4 million each quarter. The Company plans to make payments of

# Polaris Infrastructure Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

June 30, 2017 and 2016 (unaudited)

(expressed in United States dollars unless otherwise noted)

---

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 PENZA 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 PENZA and SJPIC and restrictions on the use of revenue from the San Jacinto project.