Consolidated Financial Statements of

Polaris Infrastructure Inc.

December 31, 2017 and 2016

(Expressed in United States dollars)

Polaris Infrastructure Inc.

December 31, 2017 and 2016

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March 6, 2018

Independent Auditor's Report

To the Shareholder of
Polaris Infrastructure Inc.

We have audited the accompanying consolidated financial statements of Polaris Infrastructure Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016 and the consolidated statements of operations and comprehensive earnings (loss), changes in total equity and cash flows for the years then ended and the related notes, which comprise a summary of significant accounting policies and other explanatory information. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP
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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Polaris Infrastructure Inc. and its subsidiaries as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Polaris Infrastructure Inc.
Consolidated Balance Sheets
(expressed in United States dollars)

	Note Ref	As at December 31, 2017	As at December 31, 2016
Assets			
Current assets			
Cash	11	$ 37,217,120	$ 45,739,008
Accounts receivable	9	12,161,961	12,023,281
Prepaid expenses	10	787,976	919,448
		50,167,057	58,681,737
Restricted cash	11	1,509,164	1,504,578
Other assets, net	10	802,204	746,441
Exploration and development properties	12	11,542,734	11,134,821
Geothermal properties	13	15,780,153	4,174,122
Property, plant and equipment, net	14	323,478,425	328,848,542
Intangible assets, net	15	3,978,151	4,157,585
Total assets		$ 407,257,888	$ 409,247,826
Liabilities and Total Equity			
Current liabilities			
Accounts payable and accrued liabilities	16	$ 9,119,281	$ 4,114,041
Current portion of long-term debt, net	17	12,720,843	10,646,871
		21,840,124	14,760,912
Other liabilities			
Long-term debt, net	17	156,353,737	166,238,421
Decommissioning liabilities	18	3,718,733	3,707,051
Deferred tax liability, net	23	38,136,676	29,883,175
Total liabilities		220,049,270	214,589,559
Non-controlling interests	19	(415,746)	(251,372)
Equity attributable to the owners of the Company			
Share capital	19	598,719,423	598,692,253
Contributed surplus	19	11,120,419	11,964,215
Accumulated deficit		(422,215,478)	(415,746,829)
Total equity attributable to the owners of the Company		187,624,364	194,909,639
Total equity		187,208,618	194,658,267
Total liabilities and total equity		$ 407,257,888	$ 409,247,826

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

Approved by the Board of Directors

(signed) Marc Murnaghan
Chief Executive Officer

(signed) Jaime Guillen
Director

Polaris Infrastructure Inc.

Consolidated Statements of Operations and Comprehensive Earnings (Loss)

(expressed in United States dollars)

	Note Ref	Year Ended December 31, 2017	December 31, 2016
Revenue	4	$ 60,106,603	$ 54,659,146
Direct costs			
Other direct costs	6	(6,392,722)	(6,240,983)
Depreciation and amortization of plant assets	6	(21,732,395)	(22,180,454)
General and administrative expenses	6	(4,259,492)	(3,668,300)
Other operating costs		(377,574)	(241,946)
Operating income		27,344,420	22,327,463
Interest income		535,588	286,153
Finance costs	7	(17,340,764)	(19,027,238)
Other losses	8	(611,970)	(305,944)
Earnings (Loss) and comprehensive earnings (loss) before income taxes		9,927,274	3,280,434
Income tax expense	23	(8,253,503)	(7,584,250)
Total earnings (loss) and comprehensive earnings (loss)		$ 1,673,771	$ (4,303,816)
Total earnings (loss) and comprehensive earnings (loss) attributable to:			
Owners of the Company		$ 1,663,862	$ (4,260,905)
Non-controlling interests		$ 9,909	$ (42,911)
Basic and diluted earnings (loss) per share		$0.11	($0.27)

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

Polaris Infrastructure Inc.

Consolidated Statements of Changes in Total Equity

(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	160,121	981,922	(51,458)	-	930,464	-	930,464
Dividends payable	-	-	-	(4,857,966)	(4,857,966)	-	(4,857,966)
Total loss and comprehensive loss	-	-	-	(4,260,905)	(4,260,905)	(42,911)	(4,303,816)
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	2,000	27,170	(843,796)	-	(816,626)	-	(816,626)
Dividends paid	-	-	-	(8,307,100)	(8,307,100)	-	(8,307,100)
Non-controlling interest ownership adjustment	-	-	-	174,589	174,589	(174,283)	306
Total earnings and comprehensive earnings	-	-	-	1,663,862	1,663,862	9,909	1,673,771
Balance at December 31, 2017	**15,675,278**	**$ 598,719,423**	**$ 11,120,419**	**$ (422,215,478)**	**$ 187,624,364**	**$ (415,746)**	**$ 187,208,618**

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

Polaris Infrastructure Inc.

Consolidated Statements of Cash Flows

(expressed in United States dollars)

	Year Ended	
	December 31, 2017	**December 31, 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	$ 1,663,862	$ (4,260,905)
Deduct items not affecting cash:		
Non-controlling interests in net loss of subsidiary	(164,374)	(42,911)
Deferred income tax expense	8,253,503	7,584,250
Finance costs recognized	15,481,721	17,193,604
Depreciation and amortization	21,757,026	22,214,727
Accretion of decommissioning liability	52,688	27,678
Change in decommissioning liabilities	(41,006)	(310,713)
Accretion on debt	1,271,600	1,327,714
Share-based compensation	1,238,940	966,430
Unrealized foreign exchange loss	56,053	22,625
Changes in non-cash working capital:		
Accounts receivable	(138,680)	(6,011,920)
Prepaid expenses	131,472	(57,719)
Accounts payable and accrued liabilities	(251,053)	366,453
Interest and return enhancement paid	(14,749,984)	(13,603,499)
	34,561,768	25,415,814
Investing		
Change in restricted cash	(4,586)	(2,134)
Change in accounts payable and accrued liabilities related to San Jacinto project	3,184,424	(2,517,024)
Changes in other assets	(110,563)	226,467
Additions to exploration and development	(407,913)	(77,416)
Additions to geothermal properties	(25,863,650)	(23,692,469)
Additions to property, plant and equipment	(1,895,056)	(1,837,418)
	(25,097,344)	(27,899,994)
Financing		
Dividends paid	(8,132,511)	(4,857,966)
Repayment of debt	(9,857,755)	(8,496,863)
	(17,990,266)	(13,354,829)
Foreign exchange loss on cash held in foreign currency	3,954	(14,202)
Net decrease in cash	(8,521,888)	(15,853,211)
Cash, beginning of period	45,739,008	61,592,219
Cash, end of period	$ 37,217,120	$ 45,739,008

The accompanying notes are an integral part of these 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"), 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

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

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

These consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company (the "Board") on March 6, 2018.

3. Accounting Policies

(a) Summary of significant accounting policies

Principles of consolidation

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

Cash

Cash includes deposit accounts and cash restricted for current use. Cash restricted for current use is held for use in the San Jacinto project, which use is governed by the Phase I and Phase II long-term debt agreements held by the Company's subsidiaries (Note 17).

Revenue recognition

The Company's sales of electricity are recognized as revenue at the time of generation and delivery to the purchasing party as metered at the point of interconnection with the transmission system. At the time of metering, the amount of revenue can be estimated reliably and it is probable that economic benefits will flow to the Company.

Intangible assets

Intangible assets are developed internally or acquired as part of a business combination. Internally-developed assets are recognized at cost and primarily arise as a result of the rights retained after donating transmission assets constructed as part of the development of geothermal properties to public utility companies. Intangible assets acquired as part of a business combination are recognized separately from goodwill if the asset is separable or arises from contractual or legal rights. Intangible assets are also recognized when acquired individually or with a group of other assets. Intangible assets are initially recorded at their estimated fair value. Intangible assets with finite lives are amortized over their useful economic lives, which is estimated to be 25 years from commissioning date, on a straight-line basis and are reviewed for impairment when an indicator of possible impairment exists. The Company has no identifiable intangible assets for which the expected useful lives are indefinite.

Impairment of long-lived assets

The carrying value of long-term assets, excluding goodwill, is reviewed quarterly for indicators that the carrying value of an asset or cash-generating unit ("CGU") may not be recoverable. If indicators of impairment exist, the recoverable amount of the asset or CGU is estimated. If the carrying value of the asset or CGU exceeds the recoverable amount, the asset or CGU is written down with an impairment recognized in the consolidated statements of operations and comprehensive loss.

Exploration and development properties, geothermal properties, and property, plant and equipment ("PP&E") are aggregated into CGUs based on their ability to generate largely independent cash flows, usually on a project-by-project basis.

The recoverable amount of an asset or CGU is identified as the greater of its fair value less costs to sell, and its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm's length transaction. Value in use is calculated by estimating the discounted present value of the future net cash flows expected to be derived from the continued use of the asset or CGU.

For exploration and development properties, geothermal properties and PP&E, the recoverable amount is the value in use determined by estimating future net cash flows on a discounted basis. Future cash flows are calculated using estimated future production, pricing, relevant operating costs, and future capital expenditures, discounted using a pre-tax market-based asset-specific rate, if available, or if not available, an estimated risk-adjusted weighted average cost of capital. Key assumptions used in the calculation of the value in use are based on pricing and production information from the Company's PPAs and management's assumptions derived from past experience and future expectations.

Reversals of impairments, excluding goodwill, are recognized when there has been a subsequent increase in the recoverable amount. In this event, the carrying amount of the asset or CGU is increased to its revised recoverable amount with an impairment reversal recognized in the consolidated statements of operations and comprehensive loss. The recoverable amount is limited to the original carrying amount less depreciation, depletion and amortization, as if no impairment had been recognized for the asset or CGU for prior periods.

Exploration and development properties

Recurring costs of maintaining the Company's exploration and development properties not currently under active development are recognized as an expense. Costs directly associated with the exploration and development of geothermal properties under active development are initially capitalized. Exploration and development costs are those expenditures where technical feasibility and commercial viability have not yet been determined. These costs include unproven property acquisition costs, geological and geophysical costs, decommissioning costs, exploration, and development drilling, sampling and appraisal costs. Costs incurred prior to acquiring the legal rights to explore an area are charged directly to the consolidated statements of operations and comprehensive loss as exploration and development expense included with other operating costs.

When an area is determined to be technically feasible and commercially viable, the accumulated costs are transferred to geothermal properties. When an area is determined not to be technically feasible and commercially viable or the Company decides not to continue with its activity, the unrecoverable costs are charged to the consolidated statements of operations and comprehensive loss as exploration and development expense included with other operating costs.

Geothermal properties

Once technical feasibility and commercial viability are reached, all costs directly associated with the development of geothermal properties are transferred on a project-by-project basis to geothermal properties. The Company believes the point at which a project reaches commercial viability is the point when the full resource capacity requirement related to each project's PPA has been reached and construction of a power plant is ready to begin.

Amounts capitalized under geothermal properties represent expenditures incurred for the development of new facilities including acquisition of geothermal concessions, construction in progress, site preparation, engineering costs, lease costs, drilling costs and decommissioning costs and transfers of exploration and development assets. Amounts are initially valued at cost and are tested for impairment based on the expected service potential of the asset when development is substantially complete. Once commercial operation is reached, after the commissioning period is complete and the asset is operating in the manner intended by management, all costs directly associated with the development of geothermal properties are transferred, on a project-by-project basis, to PP&E. Geothermal properties are assessed for impairment when facts and circumstances suggest that the carrying amount of a geothermal property may exceed its recoverable amount.

For divestitures of properties, a gain or loss is recognized in the consolidated statements of operations and comprehensive loss. Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reliably measured. Where the exchange is measured at fair value, a gain or loss is recognized in the consolidated statements of operations and comprehensive loss.

PP&E

PP&E is recorded at cost and includes assets available for use. Assets available for use are depreciated over their estimated useful lives. Spare parts are included in PP&E and are valued at acquisition cost less a provision for obsolescence.

For divestitures of PP&E, a gain or loss is recognized in the consolidated statements of operations and comprehensive loss. Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reliably measured. Where the exchange is measured at fair value, a gain or loss is recognized in the consolidated statements of operations and comprehensive loss.

Expenditures related to renewals or betterments that improve the productive capacity or extend the life of an asset are capitalized, and any part of an asset that has been replaced is derecognized.

Costs associated with office furniture, fixtures, leasehold improvements and information technology are carried at cost and depreciated on a straight-line basis over the estimated lives of the assets, which range from three to seven years.

Borrowing costs

Borrowing costs related to project financing are capitalized during the construction phase of qualifying assets. Borrowing costs related to corporate financings are generally expensed unless the proceeds are directly used to fund specific exploration and development, geothermal properties and PP&E.

Provisions

Provisions are recognized when present obligations, as a result of a past event, will probably lead to an outflow of required economic resources, and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. All provisions are measured, and reviewed at each reporting date, on the basis of the discounted expected future cash outflows and adjusted to reflect the current best estimate.

Contingencies

When a contingency is substantiated by confirming events, can be reliably measured, and will likely result in an economic outflow, a liability is recognized in the consolidated financial statements as the best estimate required to settle the obligation. A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable. When the economic benefit becomes virtually certain, the asset is no longer contingent and is recognized in the consolidated financial statements.

Decommissioning liabilities

The Company recognizes decommissioning liabilities in the period in which they are incurred. The associated decommissioning costs before salvage values are capitalized as part of the carrying amount of the long-lived asset. The liability is accreted over the estimated time period until the settlement of the obligation, and the asset is amortized over its estimated useful life. The decommissioning liability is classified based on expected timing of settlement. The discount rate selected by the Company is based on the relevant risk free rate.

Decommissioning liabilities include present obligations where the Company will be required to retire tangible long-lived assets such as producing well sites and power plants. The decommissioning liability is measured at the present value of the expenditure expected to be incurred. Changes in the estimated liability resulting from revisions to estimated timing or amount of cash flows, or changes in the discount rate are recognized as a change in the decommissioning liability and the related long-lived asset.

Increases in decommissioning liabilities resulting from the passage of time are recorded as accretion of decommissioning liabilities included in finance costs in the consolidated statements of operations and comprehensive loss.

Actual expenditures incurred are charged against the accumulated decommissioning liability.

Foreign currency translation

The functional and reporting currency of the Company and its wholly owned subsidiaries is the US dollar, as a significant portion of revenue, assets, liabilities and financing are denominated in US dollars. Foreign currency transactions are translated using the exchange rate in effect on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are included in the consolidated statements of operations and comprehensive loss.

Monetary assets and liabilities of the Company that are denominated in foreign currencies are translated into its functional currency at the rate of exchange in effect at the period end date. Any gains or losses are recorded in the consolidated statements of operations and comprehensive loss.

Income taxes

Income tax is recognized in the consolidated statements of operations and comprehensive loss except to the extent that it relates to items recognized directly in shareholders' equity. Income taxes for the current and prior periods are measured at the amount expected to be recoverable from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period.

The Company follows the liability method of accounting for income taxes. Under this method, deferred income taxes are recorded for the effect of any temporary difference between the accounting and income tax basis of an asset or liability.

Deferred income tax is calculated using the enacted or substantively enacted income tax rates expected to apply when the assets are realized or liabilities are settled. The effect of a change in enacted or substantively enacted tax rates is recognized in the consolidated statements of operations and comprehensive loss or in shareholders' equity, depending upon the item to which the adjustment relates.

Deferred income tax assets are recognized to the extent future recovery is probable. Deferred income tax assets are reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the assets to be recovered.

Deferred income tax liabilities and assets are not recognized for temporary differences arising on:

- Investments in subsidiaries and associates and interests in joint ventures where the timing of the reversal of the temporary difference can be controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future;
- The initial recognition of non-deductible goodwill; or
- The initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting net income nor taxable income.

Share-based compensation

The Company measures the compensation cost to be recognized for share-based awards based on the estimated fair value of the award on the date of grant. Share-based compensation expense is recognized over the applicable vesting period. The Company uses the Black-Scholes option valuation model to estimate the fair value of options awards. In estimating this fair value, the Company uses certain assumptions, as disclosed in Note 20, consisting of the expected life of the option, risk-free interest rate, dividend yield, and volatility. The use of a different estimate for any one of these components could have a material impact on share-based compensation expense.

Government grants

An unconditional government grant related to an asset is recognized as a reduction in the carrying amount of the asset when the grant becomes receivable.

Grants that compensate the Company for expenses incurred are recognized in the consolidated statements of operations and comprehensive loss as other income in the same periods in which the expenses are recognized. Grants that compensate the Company for the cost of an asset are recognized in the consolidated statements of operations and comprehensive loss as a reduction of depreciation expense over the useful life of the asset.

Leases

Leases or other arrangements entered into for the use of an asset are classified as either finance or operating leases.

Finance leases transfer to the Company substantially all the risks and benefits incidental to ownership of the leased asset. Finance leases are capitalized at the commencement of the lease term at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Capitalized leased assets are amortized over the shorter of the estimated useful lives of the assets and the lease terms. All other leases are classified as operating leases and the payments are amortized on a straight-line basis over the lease term.

Non-controlling interests

Non-controlling interests in the Company’s subsidiaries are classified as a separate component of equity. Each period, net income or loss and components of other comprehensive income or loss are attributed to both the Company and non-controlling interest based on their respective percentage interests.

Financial instruments

The Company classifies and measures all financial assets as either fair value or amortized cost.

The Company determines the classification of its financial assets at initial recognition. Financial assets are classified and measured at amortized cost when they meet the following criteria:

- The Company plans to hold the financial assets in order to collect contractual cash flows; and
- Payments received on the financial assets are solely payments of principal and interest on the principal amount outstanding.

Financial assets are classified and measured at fair value unless they meet the criteria for amortized cost. All financial assets of the Company meet the criteria for amortized cost.

The Company measures its financial liabilities initially at fair value net of transaction costs, and subsequently at amortized cost using the effective interest method, except for financial liabilities measured at fair value through profit or loss (“FVTPL”).

The Company may designate financial liabilities at FVTPL when doing so results in more relevant information because:

- It eliminates or reduces measurement or recognition inconsistency that would arise from measuring the liabilities and recognizing gains and losses on them on different bases or
- A group of financial liabilities is managed and evaluated on a fair value basis, in accordance with the Company’s risk management or investment strategy.

This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9, “Financial Instruments”, as well as embedded derivatives.

Financial assets and liabilities at amortized cost are subsequently measured at amortized cost using the effective interest rate method, with any gains or losses recognized in the statement of operations and comprehensive loss. The company has no financial assets or liabilities measured at FVTPL.

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recognized at the proceeds received, net of direct issue costs.

Determination of fair value

In estimating the fair value of an asset or a liability, the Company uses Level 1 inputs, which are quoted prices in active markets for identical assets or liabilities the Company can access at the measurement date to the extent it is available. Where Level 1 inputs are not available, the Company engages third party qualified valuation specialists to perform the valuation. The Company works closely with the qualified external valuation specialists to establish the appropriate valuation techniques and inputs to the model. Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in the notes to these consolidated financial statements.

Derivatives

Derivatives embedded in other financial instruments or executory contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to their host financial instrument or contract.

Transaction costs

Transaction costs related to other liabilities, loans and receivables are capitalized and amortized over the expected life of the instrument using the effective interest method. Transaction costs related to share issuances are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Earnings per share

The Company presents basic and diluted earnings per share (“EPS”) data for its common shares. Basic EPS is calculated by dividing the income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the income or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, and for the effects of all dilutive potential common shares.

Segment reporting

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. Reportable operating segments of the Company are identified based on internal reports that are generated and regularly reviewed by the chief operating decision maker in order to allocate resources and to assess performance.

<u>Use of estimates</u>

The timely preparation of consolidated financial statements requires that management make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures 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 CGUs on a project-by-project basis based on their ability to generate largely independent cash flows and are used for long-lived asset and goodwill 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

Amounts used for long-lived asset and goodwill impairment calculations are based on estimates of future cash flows of the Company. By their nature, estimates of cash flows, including estimates of future capital expenditures, revenue, operating expenses, plant capacity, discount rates and market pricing are subject to measurement uncertainty. Accordingly, the impact on the consolidated financial statements of future periods could be material.

Estimated future cash flows are used in determining the fair value of certain exploration and development properties, geothermal properties and PP&E, and 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 a period of at least twelve months following the end of the reporting period by considering 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.

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. 1IFRS 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.

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. IFRS15 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 evaluated the impact of IFRS 15 and determined that adoption will not have a significant impact on measurement or recognition of revenue. Evaluation of the disclosure implications of IFRS15 is ongoing and expected to be finalized in 2018.

(expressed in United States dollars unless otherwise noted)

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 year ended December 31, 2017 and 2016 of $60,106,603 and $54,659,146, 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”), both 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.

The following geographic data include revenue, comprehensive loss before income taxes, and assets and liabilities based on location:

	Year Ended	
Revenue	December 31, 2017	December 31, 2016
Nicaragua	60,106,603	54,659,146
	$ 60,106,603	$ 54,659,146

Comprehensive income (loss)	Year Ended	
before income taxes	December 31, 2017	December 31, 2016
Canada	$ (3,462,530)	$ (2,062,285)
United States	$531,488	118,833
Nicaragua	$12,858,316	5,223,886
	$ 9,927,274	$ 3,280,434

(expressed in United States dollars unless otherwise noted)

Assets and liabilities		As at December 31, 2017		As at December 31, 2016
Canada	$	14,228,220	$	25,168,235
United States		343,516		377,222
Nicaragua		392,686,152		383,702,369
Total assets	$	407,257,888	$	409,247,826
Canada	$	1,195,909	$	1,114,126
United States		249,898		249,898
Nicaragua		355,645,024		349,202,065
Total non-current assets	$	357,090,831	$	350,566,089
Canada	$	4,404,332	$	2,254,009
United States		2,600,424		2,577,436
Nicaragua		213,044,514		209,758,114
Total liabilities	$	220,049,270	$	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:

	Year Ended			
		December 31, 2017		December 31, 2016
Depreciation and amortization	$	21,732,395	$	22,180,454
Employee costs		2,956,383		2,835,001
General liability insurance		1,608,395		1,754,812
Maintenance		1,801,787		1,624,547
Other direct costs		26,157		26,623
	$	28,125,117	$	28,421,437

(b) General and administrative expenses

The Company's general and administrative expenses for the year ended December 31, 2017 and 2016 consisted of:

	Year Ended			
		December 31, 2017		December 31, 2016
Salaries and benefits	$	1,273,436	$	1,219,807
Share-based compensation		1,266,110		966,430
Facilities and support		530,926		512,941
Professional fees		742,985		551,520
Insurance		404,728		373,263
Depreciation of other assets		24,631		34,273
Other general and adminstrative expenses		16,676		63,530
Gross general and administrative expenses		4,259,492		3,721,764
Total allocation to exploration and development and geothermal properties		-		(53,464)
Net general and administrative expenses	$	4,259,492	$	3,668,300

(expressed in United States dollars unless otherwise noted)

7. Finance costs

The Company's finance costs for the year ended December 31, 2017 and 2016 consisted of:

	Year Ended	
	December 31, 2017	December 31, 2016
Interest on debt	$ 15,481,721	$ 17,193,604
Accretion on debt	1,271,599	1,327,714
Accretion of decommissioning liabilities	52,688	27,678
Other finance costs	534,756	478,242
	$ 17,340,764	$ 19,027,238

Cash paid for interest and return enhancement during the year ended December 31, 2017 and 2016 was $14,749,984 and $13,603,499, respectively.

8. Other gains and losses

The Company's other gains and losses for the years ended December 31, 2017 and 2016 consisted of:

	Year Ended	
	December 31, 2017	December 31, 2016
Foreign exchange losses	$ (535,876)	$ (519,035)
Gain on disposal of assets	-	388,400
Other losses	(76,094)	(175,309)
	$ (611,970)	$ (305,944)

9. Accounts receivable

The Company's accounts receivable of $12,161,961 and $12,023,281 as at December 31, 2017 and 2016, respectively, consisted of amounts due from its customers, Disnorte and Dissur, both 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

	December 31, 2017	December 31, 2016
Prepaid insurance	$ 427,797	$ 480,512
Other prepaids	360,179	438,936
	$ 787,976	$ 919,448

(b) Other assets, net

	December 31, 2017	December 31, 2016
Fixed assets, net	$ 23,571	$ 44,330
Recoverable taxes	714,529	639,591
Other deposits	64,104	62,520
	$ 802,204	$ 746,441

(expressed in United States dollars unless otherwise noted)

11. Restricted cash

	December 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	369,565	361,720
Other restricted cash	9,599	12,858
	$ 1,509,164	$ 1,504,578

In addition to amounts recorded as restricted cash, cash in the amount of $24,373,990 and $21,856,551 held by the Company as at December 31, 2017 and 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 which have not yet reached technical feasibility and commercial viability.

	Balance at December 31, 2016	2017 Additions	Balance at December 31, 2017
Intangible			
Casita	$ 11,034,356	$ 407,913	$ 11,442,269
Total- Intangible	11,034,356	407,913	11,442,269
Tangible			
Casita	100,465	-	100,465
Total-Tangible	100,465	-	100,465
Total Exploration and Development Properties			
Casita	11,134,821	407,913	11,542,734
Total	$ 11,134,821	$ 407,913	$ 11,542,734

13. Geothermal properties

The Company has the following properties under development which have reached technical feasibility and commercial viability but are not yet in operation.

	December 31, 2016	2017 Activity	2017 Transfers to PP&E	December 31, 2017
San Jacinto Binary Plant	$ 559,512	$ 576,788	$ -	$ 1,136,300
San Jacinto Drilling Costs	3,614,610	24,409,585	(13,382,797)	14,641,398
San Jacinto Major Maintenance	-	877,277	(874,822)	2,455
	$ 4,174,122	$ 25,863,650	$ (14,257,619)	$ 15,780,153

14. Property, plant and equipment, net

The following is a summary of the activity related to the Company's PP&E:

	December 31, 2016	2017 Activity	2017 Transfers from Geothermal Properties	December 31, 2017
San Jacinto project	$ 483,943,381	$ 566,905	$ 14,257,619	$ 498,767,905
Accumulated depreciation	(118,153,498)	(21,522,792)	-	(139,676,290)
Accumulated impairment	(38,940,166)	-	-	(38,940,166)
Spare parts inventory	1,998,825	1,328,152	-	3,326,977
	$ 328,848,542	$ (19,627,735)	$ 14,257,619	$ 323,478,425

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 $21,522,792 and $21,918,680 for the years ended

(expressed in United States dollars unless otherwise noted)

December 31, 2017 and 2016 respectively, was recorded in the consolidated statements of operations and comprehensive loss.

During the year ended December 31, 2016, the Company reviewed the useful lives of property, plant and equipment assets currently in service and determined useful lives of certain assets differed from previous estimates and has assigned new useful lives by major asset categories summarized as follows:

- Pipe lines – 20 years
- Turbines – 20 years
- Wells – 25 years
- Condenser – 20 years
- Cooling Tower – 25 years
- Switchyard – 25 years

15. Intangible assets

Amortization expense related to the transmission assets for the San Jacinto project donated to the Nicaraguan utility, ENATREL in December 2011, was $209,603 and $261,774 for the years ended December 31, 2017 and 2016 respectively.

16. Accounts payable and accrued liabilities

	December 31, 2017	December 31, 2016
Trade payables	$ 1,256,615	$ 1,672,769
Construction payables	640,174	32,653
Construction accrued liabilities	3,360,885	783,982
Interest payable	530,406	518,061
Other accrued liabilities	3,331,201	1,106,576
	$ 9,119,281	$ 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
Accrued interest expense	-	-	-	-	-	18,749	18,749
Return enhancement	-	299,063	-	401,579	700,642	-	700,642
Accretion of deferred transaction costs	491,250	-	780,349	-	1,271,599	-	1,271,599
Repayments of debt	(2,457,297)	(734,090)	(5,770,800)	(895,568)	(9,857,755)	-	(9,857,755)
Effect of foreign exchange on loans	-	-	-	-	-	56,053	56,053
Loans and other borrowings – December 31, 2017	$36,332,030	$13,441,909	$ 99,887,513	$18,549,210	$168,210,662	$ 863,918	$169,074,580
Current	$ 3,440,216	$ 1,027,725	$ 6,412,000	$ 976,984	$ 11,856,925	$ 863,918	$ 12,720,843
Non-current	32,891,814	12,414,184	93,475,513	17,572,226	156,353,737	-	156,353,737
Unamortized transaction costs/return enhancement	1,852,820	(1,549,710)	4,628,087	(1,940,484)	2,990,713	-	2,990,713
Principal balance	$38,184,850	$11,892,199	$104,515,600	$16,608,726	$171,201,375	$ 863,918	$172,065,293
Maturity date	12/15/2024	12/15/2025	12/15/2028	6/15/2029		12/31/2011	

	Year Ended	
	December 31, 2017	December 31, 2016
Phase I Facility		
Interest recorded as financing cost	$ 4,803,876	$ 5,668,643
Accretion recorded as financing cost	491,250	512,763
Phase II Facility		
Interest recorded as financing cost	10,659,096	11,507,902
Accretion recorded as financing cost	780,349	814,951
Other		
Interest recorded as financing cost	18,749	17,059
Total		-
Interest recorded as financing cost	$ 15,481,721	$ 17,193,604
Accretion recorded as financing cost	1,271,599	1,327,714

(a) Credit agreements

Summary of Phase I and Phase II Credit Agreements

As at December 31, 2017 and 2016, interest rates on the Phase I and Phase II senior facilities were 8.09% and 7.46%, respectively. Interest on Phase I Subordinated Debt is fixed at 6% annually.

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 December 31, 2017, the Company continues to accrue interest at the Royal Bank of Canada's prime rate of 3.20%. No interest was paid for this loan during the year ended December 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	(22,347)	(12,879)	(5,780)	(41,006)
Accretion	12,803	27,531	12,354	52,688
December 31, 2017	$ 1,151,187	$ 1,772,302	$ 795,244	$ 3,718,733

The Company extended its estimated reclamation date from December 31, 2017 to December 31, 2019 during the year ended December 31, 2016. The following assumptions were used in the determination of the Company's decommissioning liabilities:

		Discount Rates	
	Undiscounted Costs	December 31, 2017	December 31, 2016
South Meager	1,190,676	1.69%	0.85%
Orita	1,841,147	1.91%	1.55%
Sierra	826,133	1.91%	1.55%

(expressed in United States dollars unless otherwise noted)

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 vested	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	-	-	(268)	-	-
Stock options vested	-	-	184,543	-	-
RSUs and DSUs vested	-	-	-	-	77,566
Stock options exercised	-	-	(3,021)	-	-
Shares issued	2,000	2,000	-	-	-
Balance at December 31, 2017	15,675,278	15,675,278	189,522	26,191	77,566

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

The Company's Omnibus Long-Term Incentive Plan (the "LTIP") adopted in June 2012 and most recently amended and 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.

The following stock options were in existence during the current and prior periods:

Options Series	Option Series	Number of Options Granted	Grant Date	Expiry Date	Exercise Price ($CDN)	Fair Value at Grant Date
(10)	Issued June 15, 2011	243	June 15, 2011	June 14, 2016	$920.00	$407.96
(11)	Issued September 30, 2011	8,315	September 30, 2011	September 29, 2016	$750.00	$197.77
(12)	Issued November 16, 2012	3,579	November 16, 2012	November 15, 2017	$460.00	$225.30
(13)	Issued May 15, 2015	24,000	May 15, 2015	May 14, 2020	$10.00	$6.68
(14)	Issued December 2, 2016	147,129	December 2, 2016	December 1, 2021	$14.60	$3.10
(15)	Issued December 20, 2017	510,000	December 20, 2017	December 20, 2022	$16.89	$1.58

Stock options granted during the year ended December 31, 2017 and in previous periods were valued using pricing models. Where relevant, the expected life used in the model was adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioral considerations. Volatility is estimated based on the historical volatility of the Company's common shares over the year previous to the grant date, with an adjustment applied to reflect management's best estimate of future volatility, where appropriate. Inputs into the model are as follows:

(expressed in United States dollars unless otherwise noted)

Options Series	Grant date	Grant Date Share Price (CDN)	Exercise Price (CDN)	Volatility	Expected Life	Risk-Free Interest Rate	Expected Dividend Yield	Forfeiture Percentage
(10)	June 15, 2011	$920.00	$920.00	67%	4.00	2.02%	0.00%	0%
(11)	September 30, 2011	$540.00	$750.00	68%	4.00	1.24%	0.00%	0%
(12)	November 16, 2012	$520.00	$460.00	69%	3.00	1.23%	0.00%	0%
(13)	May 15, 2015	$10.00	$10.00	104%	5.00	1.00%	0.00%	0%
(14)	December 2, 2016	$14.60	$14.60	40%	4.00	0.79%	4.01%	6%
(15)	December 20, 2017	$16.89	$16.89	29%	3.00	1.63%	4.56%	13%

Stock options granted in series 10 vested 33% at the one-year anniversary of the grant date and 1/24th of the balance of such options vested on the 22nd day of each month thereafter. Stock options granted in series 11 vested 33% on each of March 30, 2012, October 30, 2012 and March 30, 2013. Stock options granted in series 12 vested 33% on each of May 16, 2013, November 16, 2013 and May 16, 2014. Stock options granted in series 13 vest 33% on each of May 14, 2016, May 14, 2017 and May 14, 2018. Stock options granted in series 14 vest 33% on each of December 1, 2017, December 1, 2018 and December 1, 2019. Stock options granted in series 15 vest 25% immediately, 25% upon change in control of the Company, 25% upon the average closing price of the common shares of the Company being not less than CAD$22.50 for a period of ten consecutive trading days, or upon a change in control, and 25% upon the average closing price of the common shares of the Company being not less than CAD$30.00 for a period of ten consecutive trading days, or upon a change in control.

During the years ended December 31, 2017 and 2016, 184,543 and 8,000 stock options vested, respectively.

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

	For the year ended December 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	510,000	16.89	147,129	14.60
Exercised during the period	(3,021)	14.60	-	-
Forfeited during the period	(68)	460.00	(1,538)	648.56
Expired during the period	(200)	460.00	(645)	782.95
Balance at end of period	678,108	$ 16.16	171,397	$ 14.65

The exercise of options occurred at the end of December 2017 and the related shares were fully issued and paid in January 2018.

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

	Outstanding Options			Exercisable Options	
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	678,108	4.7	$ 16.16	189,522	$ 15.75
	678,108	4.7	$ 16.16	189,522	$ 15.75

For the years ended December 31, 2017 and 2016, the Company recognized shared-based compensation expense associated with options, with a corresponding increase in contributed surplus, of $430,029 and $84,098, respectively.

Under the LTIP, during the year ended December 31, 2015, the Company granted 322,263 restricted share units (“RSUs”) to employees of the Company with the following terms:

(expressed in United States dollars unless otherwise noted)

Grant Date	Restriction Period Termination Date	RSUs Granted	Fair Value per RSU at Grant Date ($CDN)	Total Fair Value at Grant Date (CDN)	Foreign Exchage Rate	Total Fair Value at Grant Date (USD)	Vesting Schedule
15/05/2015	30/06/2018	12,000	$ 10.00	$ 120,000	0.8326	$ 99,912	1/3 vest 6/30/2016, 1/3 vest 6/30/2017, 1/3 vest 6/30/2018
13/05/2015	13/05/2019	310,263	10.00	3,102,630	0.8368	2,596,281	1/4 vest 5/13/2015, 1/4 vest 5/13/2016, 1/4 vest 5/13/2017, 1/4 vest 5/13/2018
		322,263		$ 3,222,630		$ 2,696,193	

There are no performance criteria associated with 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 $823,732 and $826,503 for the year ended December 31, 2017 and 2016, respectively.

The Company also granted 6,452 DSUs in the amount of CDN$100,000 on June 30, 2015. There are no performance criteria associated with the DSUs and they are effective on the first day of the fiscal quarter following the grant. The DSUs granted are thus effective July 1, 2015. The total fair value of $80,170 (CDN$100,000 at the June 30, 2015 Bank of Canada exchange rate of 0.8017) was recognized as share-based compensation expense with a corresponding increase in share-based compensation liabilities over the one-year service period from July 1, 2015 through June 30, 2016. Participants may redeem DSUs within the 90 days following termination from the Company by providing a notice of redemption specifying an election to receive either a cash payment or Company shares or both. Until the liability is settled, the Company will remeasure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss as part of share-based compensation for the period. The Company recognized share-based compensation expense of $12,349 and $55,828 in connection with the DSUs for the years ended December 31, 2017 and 2016, respectively.

Warrants

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 a result of these adjustments, and due to the insignificant trading volume of the Warrants, the Warrants were delisted from the TSX. The revaluation of the debenture warrant liability resulted in a gain of $nil for the years ended December 31, 2017 and 2016. The warrants expire in March 2018.

(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:

(expressed in United States dollars unless otherwise noted)

	Year Ended	
	December 31, 2017	December 31, 2016
Total earnings (loss) and comprehensive earnings (loss) attributable to owners of the Company	$ 1,663,862	$ (4,260,905)
Basic weighted average number of shares outstanding	15,674,034	15,614,026
Basic earnings (loss) per share	$0.11	($0.27)

	Year Ended	
	December 31, 2017	December 31, 2016
Total earnings (loss) and comprehensive earnings (loss) attributable to owners of the Company	$ 1,663,862	$ (4,260,905)
Diluted weighted average number of shares outstanding	15,700,510	15,615,845
Diluted earnings (loss) per share	$0.11	($0.27)

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

	Year Ended	
	December 31, 2017	December 31, 2016
Stock options - 12/20/2017 grant date	510,000	-
Stock options - 12/2/2016 grant date	-	147,129
Stock options - 11/16/2012 grant date	-	268
Deferred stock units	-	6,452
Warrants	26,191	26,191
Total anti-dilutive instruments	536,191	180,040

(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.("CCPSA"), 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 year ended December 31, 2017 and 2016 were $9,909 and ($42,911), respectively.

20. Related party transactions

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

	Year Ended	
	December 31, 2017	December 31, 2016
Short-term employee benefits	$ 756,917	$ 669,775
Share-based payment	836,017	964,066
Total key management compensation	$ 1,592,934	$ 1,633,841

21. Commitments

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

(expressed in United States dollars unless otherwise noted)

Geothermal property lease commitments

		December 31, 2017
No later than one year	$	30,000
For years 2 - 5		120,000
Thereafter		300,000
Total commitments for expenditures	$	450,000

Non-cancelable operating lease commitments

		December 31, 2017
No later than one year	$	62,760
For years 2 - 5		78,450
Thereafter		-
Total operating lease commitments	$	141,210

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 December 31, 2017.

23. Income taxes

(a) Income tax expense

The Company has recorded the following deferred tax expense / (recovery) for the years ended December 31, 2017 and 2016:

		December 31, 2017		December 31, 2016
Current tax expense				
Current period	$	-	$	-
Deferred tax expense				
Origination and reversal of temporary differences		(2,703,016)		13,834,253
Change in tax rates and rate differences		26,475,193		(488,078)
Change in unrecognized deductible temporary differences		(12,013,751)		(4,120,147)
Other		(3,504,923)		(1,641,778)
Total income tax expense from continuing operations	$	8,253,503	$	7,584,250

The actual income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial corporate tax rates to income before tax. These differences result from the following:

(expressed in United States dollars unless otherwise noted)

		December 31, 2017		December 31, 2016
Income before tax	$	9,927,274	$	3,280,434
Statutory income tax rate		26.50%		26.50%
Expected income tax		2,630,728		869,315
Increase (decrease) resulting from:				
Non-taxable items		(11,500,421)		4,645,211
Change in unrecoginized assets		(12,013,751)		(4,120,147)
Change in tax rates and rate differences		26,475,193		(488,078)
Effect of tax rate in foreign jurisdictions		(4,685,178)		418,570
Expiration of tax attributes		10,854,481		7,889,786
Non-controlling interest		(2,626)		11,371
Other		(3,504,923)		(1,641,778)
Income tax expense (recovery)	$	8,253,503	$	7,584,250

(b) Recognized deferred tax assets and liabilities

Deferred tax assets are attributable to the following:

		December 31, 2017		December 31, 2016
Tax loss carryforw ards	$	21,763	$	211,017
Deferred tax assets		21,763		211,017
Set off of tax		(21,763)		(211,017)
Net deferred tax asset	$	-	$	-

Deferred tax liabilities are attributable to the following:

		December 31, 2017		December 31, 2016
Property, plant and equipment	$	(38,136,881)	$	(29,883,360)
Foreign exchange on foreign currency election		(27)		(181,874)
Unrealized foreign exchange		(21,531)		(28,958)
Deferred tax liabilities		(38,158,439)		(30,094,192)
Set off of tax		21,763		211,017
Net deferred tax liability	$	(38,136,676)	$	(29,883,175)

(c) Unrecognized deferred tax assets

The tax losses expire between 2017 and 2036. Deferred tax assets have not been recognized in respect of the following items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits.

		December 31, 2017		December 31, 2016
Deductible temporary differences	$	86,906,439	$	103,980,230
Tax losses		276,075,693		202,087,590
	$	362,982,132	$	306,067,820

The Company does not expect to utilize any of the net operating losses carried forward in Nicaragua, totaling $57,073,557 as at December 31, 2017, because the Company's subsidiary in Nicaragua is not subject to income taxes for a period of 10 years. The Nicaraguan subsidiary was granted a tax-free holiday under the tax laws related to the commercial production of electricity from renewable resources.

24. Financial instruments and risk management

(a) Fair value of financial assets and liabilities

Valuation Techniques

As at December 31, 2017 and 2016, respectively, 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 and amount allocated to the warrants 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 December 31, 2017 was 8.09%. 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 the 3-month LIBOR would result in an increase of $142,700 in financing costs for the year ended December 31, 2017.

Under the terms of the Phase I and Phase II Credit Agreements, the borrowers are required to enter into interest rate hedging agreements for at least 100% and 50% of the outstanding balance of the Phase I and Phase II Senior Credit Facilities, respectively. Management is working with the San Jacinto Project lenders to either enter into the required interest rate swaps or amend the hedging agreement requirement.

(d) Currency risk

The Company operates internationally and is exposed to risks from changes in foreign currency 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 December 31, 2017 and 2016, the Company had cash, accounts payable and long-term debt in a net payable position of CDN$624,167 and CDN$774,262, respectively.

The Company determined that a 10% change in the Canadian dollar against the US dollar would have impacted total loss and comprehensive loss by $49,752 and $57,667 for the year ended December 31, 2017 and 2016, respectively. 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 carbon emission reduction credits ("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 power purchase agreement ("PPA") which establishes a fixed price and escalator.

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

(f) Credit risk

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

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

(expressed in United States dollars unless otherwise noted)

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 December 31, 2017 and 2016 was $12,161,961 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 December 31, 2017:

	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years	Total
Accounts payable and accrued liabilities	$ 9,119,281	$ -	$ -	$ -	$ 9,119,281
Debt, current and long-term	12,720,843	29,912,106	37,962,714	91,469,630	172,065,293
Interest obligations	12,708,381	22,415,183	17,244,953	19,072,117	71,440,634
	$ 34,548,505	$52,327,289	$55,207,667	$ 110,541,747	$252,625,208

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

25. Capital management

The Company's capital structure is comprised of net long-term debt, as further disclosed in Note 17, 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 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 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 debt service coverage and solvency ratios for PENSA and SJPIC, and restrictions on the use of revenue from the San Jacinto project.