

Unaudited Interim Condensed Consolidated Financial  
Statements of

**Polaris Infrastructure Inc.**

September 30, 2018 and 2017

(Expressed in United States dollars)

# **Polaris Infrastructure Inc.**

September 30, 2018 and 2017

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# Polaris Infrastructure Inc.

## Interim Condensed Consolidated Balance Sheets (Unaudited)

(expressed in United States dollars)

	Note Ref	As at September 30, 2018	As at December 31, 2017
<b>Assets</b>			
<b>Current assets</b>			
Cash		39,915,726	\$ 37,217,120
Accounts receivable	9	15,143,607	12,161,961
Prepaid expenses	10	876,420	787,976
		55,935,753	50,167,057
Restricted cash	11	1,507,045	1,509,164
Other assets, net	10	1,786,533	802,204
Exploration and development properties	12	11,552,244	11,542,734
Geothermal properties	13	1,268,651	15,780,153
Property, plant and equipment, net	14	326,762,493	323,478,425
Intangible assets, net	15	3,821,118	3,978,151
<b>Total assets</b>		<b>\$ 402,633,837</b>	<b>\$ 407,257,888</b>
<b>Liabilities and Total Equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	16	\$ 5,688,738	\$ 9,119,281
Current portion of long-term debt, net	17	14,100,424	12,720,843
		19,789,162	21,840,124
<b>Other liabilities</b>			
Long-term debt, net	17	146,218,812	156,353,737
Decommissioning liabilities	18	3,738,552	3,718,733
Deferred tax liability, net		44,136,818	38,136,676
<b>Total liabilities</b>		<b>213,883,344</b>	<b>220,049,270</b>
Non-controlling interests	19	(353,878)	(415,746)
<b>Equity attributable to the owners of the Company</b>			
Share capital	19	598,761,540	598,719,423
Contributed surplus	19	11,211,333	11,120,419
Accumulated deficit		(420,868,502)	(422,215,478)
<b>Total equity attributable to the owners of the Company</b>		<b>189,104,371</b>	<b>187,624,364</b>
<b>Total equity</b>		<b>188,750,493</b>	<b>187,208,618</b>
<b>Total liabilities and total equity</b>		<b>\$ 402,633,837</b>	<b>\$ 407,257,888</b>

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 (Unaudited)**

(expressed in United States dollars)

	Note Ref	Three Months Ended		Nine Months Ended	
		September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Revenue	4	\$ 18,151,286	\$ 15,266,442	\$ 50,538,098	\$ 44,547,487
Direct costs					
Other direct costs	6	(1,840,976)	(1,572,055)	(5,035,769)	(4,721,143)
Depreciation and amortization of plant assets	6	(5,721,498)	(5,442,618)	(17,056,267)	(16,239,889)
General and administrative expenses	6	(474,650)	(800,004)	(1,713,503)	(3,072,190)
Other operating costs		(52,117)	(93,024)	(171,456)	(293,992)
Operating income		10,062,045	7,358,741	26,561,103	20,220,273
Interest income		247,095	178,354	538,996	417,061
Finance costs	7	(4,108,172)	(4,356,327)	(12,196,774)	(13,006,205)
Other losses	8	(253,766)	(256,591)	(439,137)	(490,968)
Earnings and comprehensive earnings before income taxes		5,947,202	2,924,177	14,464,188	7,140,161
Income tax expense		(1,937,593)	(2,050,170)	(6,000,141)	(6,229,515)
Total earnings and comprehensive earnings		\$ 4,009,609	\$ 874,007	\$ 8,464,047	\$ 910,646
Total earnings and comprehensive earnings attributable to:					
Owners of the Company		\$ 3,980,091	\$ 889,579	\$ 8,402,179	\$ 911,376
Non-controlling interests		\$ 29,518	\$ (15,572)	\$ 61,868	\$ (730)
Basic and diluted earnings (loss) per share		\$0.25	\$0.06	\$0.54	\$0.06

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, 2017</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	2,000	27,170	(1,134,763)	-	(1,107,593)	-	(1,107,593)
Dividends payable	-	-	-	(5,955,819)	(5,955,819)	-	(5,955,819)
Non - controlling interest ownership adjustment	-	-	-	174,589	174,589	(174,283)	306
Total earnings and comprehensive earnings	-	-	-	911,376	911,376	(730)	910,646
<b>Balance at September 30, 2017</b>	<b>15,675,278</b>	<b>598,719,423</b>	<b>10,829,452</b>	<b>(420,616,683)</b>	<b>188,932,192</b>	<b>(426,385)</b>	<b>188,505,807</b>
Share-based compensation	-	-	290,967	-	290,967	-	290,967
Dividends paid	-	-	-	(2,351,281)	(2,351,281)	-	(2,351,281)
Non - controlling interest ownership adjustment	-	-	-	-	-	-	-
Total earnings and comprehensive earnings	-	-	-	752,486	752,486	10,639	763,125
<b>Balance at December 31, 2017</b>	<b>15,675,278</b>	<b>598,719,423</b>	<b>11,120,419</b>	<b>(422,215,478)</b>	<b>187,624,364</b>	<b>(415,746)</b>	<b>187,208,618</b>
Share-based compensation	3,021	42,117	90,914	-	133,031	-	133,031
Dividends paid	-	-	-	(7,055,203)	(7,055,203)	-	(7,055,203)
Total earnings and comprehensive earnings	-	-	-	8,402,179	8,402,179	61,868	8,464,047
<b>Balance at September 30, 2018</b>	<b>15,678,299</b>	<b>598,761,540</b>	<b>11,211,333</b>	<b>(420,868,502)</b>	<b>189,104,371</b>	<b>(353,878)</b>	<b>188,750,493</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)

	Nine Months Ended	
	September 30, 2018	September 30, 2017
Net inflow (outflow) of cash related to the following activities		
Operating		
Total earnings (loss) and comprehensive earnings (loss) attributable to owners of the Company	\$ 8,402,179	\$ 911,376
Deduct items not affecting cash:		
Non-controlling interests in net loss of subsidiary	61,868	(175,013)
Deferred income tax expense	6,000,141	6,229,515
Finance costs recognized	10,726,787	11,593,498
Depreciation and amortization	17,067,708	16,258,165
Accretion of decommissioning liability	56,050	37,918
Change in decommissioning liabilities	(36,231)	(22,068)
Accretion on debt	907,076	959,652
Share-based compensation	(558,460)	897,191
Unrealized foreign exchange loss	(26,776)	60,429
Changes in non-cash working capital:		
Accounts receivable	(2,981,646)	10,679
Prepaid expenses	(88,444)	(63,686)
Accounts payable and accrued liabilities	764,340	194,538
Interest and return enhancement paid	(10,907,946)	(11,062,931)
	29,386,646	25,829,263
Investing		
Change in restricted cash	2,119	(5,216)
Change in accounts payable and accrued liabilities related to San Jacinto project	(3,408,463)	2,183,138
Changes in other assets	(995,769)	(77,279)
Additions to exploration and development	(9,510)	(360,284)
Additions to geothermal properties	(4,719,594)	(17,163,551)
Additions to property, plant and equipment	(952,207)	(2,075,131)
	(10,083,424)	(17,498,323)
Financing		
Dividends paid	(7,055,203)	(5,781,230)
Repayment of debt	(9,554,838)	(7,393,316)
	(16,610,041)	(13,174,546)
Foreign exchange loss on cash held in foreign currency	5,425	(8,622)
Net increase in cash	2,698,606	(4,852,228)
Cash, beginning of period	37,217,120	45,739,008
Cash, end of period	\$ 39,915,726	\$ 40,886,780

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

September 30, 2018 and 2017 (unaudited)

(expressed in United States dollars unless otherwise noted)

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### 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, 2017.

These unaudited interim condensed consolidated financial statements have been prepared on a going concern basis, using historical cost convention.

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 November 6, 2018.

### 3. Summary of significant accounting policies

#### *Principles of consolidation*

Except for the adoption of IFRS 15 described below, 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, 2017, as presented in Note 3 to the audited consolidated financial statements.

#### *New Accounting Standards Adopted During the Year*

##### IFRS 15 – Revenue from Contracts with Customers

The Company has adopted IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") effective January 1, 2018 on a modified retrospective basis in accordance with the transitional provisions of IFRS 15. Results for reporting periods beginning after January 1, 2018 are presented under IFRS 15, while prior reporting period amounts have not been restated and continue to be reported under IAS 18 – Revenue ("IAS 18") (accounting standard in effect for those periods).

The Company has concluded that the adoption of IFRS 15 does not change the Company's approach to revenue recognition and did not result any measurement adjustments nor adjustments to the opening deficit balance at January 1, 2018. Revenue disclosures are provided in Note 4 to these financial statements.

# Polaris Infrastructure Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2018 and 2017 (unaudited)

(expressed in United States dollars unless otherwise noted)

### *New Accounting Standards Previously Adopted*

#### 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. 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 in a prior year.

#### Accounting Standards issued but not yet effective

#### IFRS 16 – Leases

IFRS 16 Leases specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 was issued in January 2016 and applies to annual reporting periods beginning on or after January 1, 2019. The Company is still assessing the impact of this standard.

#### 4. Revenue

Revenue for the three months ended September 30, 2018 and 2017 of \$18,151,286 and \$15,266,442, respectively, and for the nine months ended September 30, 2018 and 2017 of \$50,538,098 and \$44,547,487, 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.

The Company has determined that it has one performance obligation which is the delivery of electricity to its two customers. There is no revenue recognized from unfulfilled performance obligations. Note 9 to these financial statements provides details on the Company’s contract balances related to this revenue.

#### 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		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Canada	\$ -	\$ -	\$ -	\$ -
United States	-	-	-	-
Nicaragua	18,151,286	15,266,442	50,538,098	44,547,487
	\$ 18,151,286	\$ 15,266,442	\$ 50,538,098	\$ 44,547,487

Comprehensive income (loss) before income taxes	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Canada	\$ (67,212)	\$ (79,695,711)	\$ (486,147)	\$ (81,137,065)
United States	(57,975)	79,229,635	(116,955)	79,077,750
Nicaragua	6,072,389	3,390,253	15,067,290	9,199,476
	\$ 5,947,202	\$ 2,924,177	\$ 14,464,188	\$ 7,140,161



# Polaris Infrastructure Inc.

## Notes to the Interim Condensed Consolidated Financial Statements September 30, 2018 and 2017 (unaudited) (expressed in United States dollars unless otherwise noted)

<b>Assets and liabilities</b>	As at	
	September 30, 2018	December 31, 2017
Canada	\$ 13,818,645	\$ 14,228,220
United States	257,970	343,516
Nicaragua	388,557,222	392,686,152
<b>Total assets</b>	<b>\$ 402,633,837</b>	<b>\$ 407,257,888</b>
Canada	\$ 2,194,123	\$ 1,195,909
United States	249,898	249,898
Nicaragua	344,254,063	355,645,024
<b>Total non-current assets</b>	<b>\$ 346,698,084</b>	<b>\$ 357,090,831</b>
Canada	\$ 3,837,572	\$ 4,404,332
United States	2,647,314	2,600,424
Nicaragua	207,398,458	213,044,514
<b>Total liabilities</b>	<b>\$ 213,883,344</b>	<b>\$ 220,049,270</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		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Depreciation and amortization	\$ 5,721,498	\$ 5,442,618	\$ 17,056,267	\$ 16,239,889
Employee costs	740,114	723,352	2,114,226	2,137,649
General liability insurance	536,410	393,554	1,536,052	1,211,199
Maintenance	549,932	454,419	1,342,832	1,354,883
Other direct costs	14,520	730	42,659	17,412
	<b>\$ 7,562,474</b>	<b>\$ 7,014,673</b>	<b>\$ 22,092,036</b>	<b>\$ 20,961,032</b>

#### (b) General and administrative expenses

The Company's general and administrative expenses for the three and nine months ended September 30, 2018 and 2017 consisted of:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Salaries and benefits	\$ 341,010	\$ 330,536	\$ 1,095,174	\$ 996,090
Share-based compensation	(246,122)	107,648	(593,617)	924,361
Facilities and support	88,078	137,581	423,974	394,370
Professional fees	171,443	109,928	450,604	419,465
Insurance	95,746	100,661	293,001	306,209
Depreciation of other assets	3,167	6,032	11,441	18,276
Other general and administrative expenses	21,328	7,618	32,926	13,419
	<b>474,650</b>	<b>800,004</b>	<b>1,713,503</b>	<b>3,072,190</b>

# Polaris Infrastructure Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2018 and 2017 (unaudited)

(expressed in United States dollars unless otherwise noted)

### 7. Finance costs

The Company's finance costs for the three and nine months ended September 30, 2018 and 2017 consisted of:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Interest on debt	\$ 3,653,672	\$ 3,896,893	\$ 10,726,787	\$ 11,593,498
Accretion on debt	296,251	315,922	907,076	959,652
Accretion of decommissioning liabilities	21,539	13,175	56,050	37,918
Other finance costs	136,710	130,337	506,861	415,137
	\$ 4,108,172	\$ 4,356,327	\$ 12,196,774	\$ 13,006,205

Cash paid for interest and return enhancement during the three months ended September 30, 2018 and 2017 was \$3,647,722 and \$3,736,303, respectively. Cash paid for interest and return enhancement during the nine months ended September 30, 2018 and 2017 was \$10,907,946 and \$11,062,931, respectively.

### 8. Other gains and losses

The Company's other gains and losses for the three and nine months ended September 30, 2018 and 2017 consisted of:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Foreign exchange losses	\$ (263,369)	\$ (181,076)	\$ (444,507)	\$ (416,736)
Other gains (losses)	9,603	(75,515)	5,370	(74,232)
	\$ (253,766)	\$ (256,591)	\$ (439,137)	\$ (490,968)

### 9. Accounts receivable

The Company's accounts receivable of \$15,143,607 as at September 30, 2018 and \$12,161,961 as at December 31, 2017, 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.

### 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

	September 30, 2018	December 31, 2017
Prepaid insurance	\$ 738,801	\$ 427,797
Other prepaids	137,619	360,179
	\$ 876,420	\$ 787,976

#### (b) Other assets, net

	September 30, 2018	December 31, 2017
Recoverable taxes	\$ 216,704	\$ 714,529
Debentures receivable	550,987	-
Investment in affiliate	169,303	-
Other deposits	55,526	64,104
Fixed assets, net	22,308	23,571
Other	771,705	-
	\$ 1,786,533	\$ 802,204

# Polaris Infrastructure Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2018 and 2017 (unaudited)

(expressed in United States dollars unless otherwise noted)

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 \$11,441 and \$18,276 was recorded for the nine months ended September 30, 2018 and 2017, respectively.

### 11. Restricted cash

	September 30, 2018	December 31, 2017
Casita exploitation application guarantee	\$ 50,000	\$ 50,000
San Jacinto guarantees	1,080,000	1,080,000
Reclamation bonds - US and Canada	365,875	369,565
Other restricted cash	11,170	9,599
	<u>\$ 1,507,045</u>	<u>\$ 1,509,164</u>

In addition to amounts recorded as restricted cash, cash in the amount of \$28,516,905 and \$24,373,990 held by the Company as at September 30, 2018 and December 31, 2017, 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.

	Balance at December 31, 2017	2018 Additions	Balance at September 30, 2018
Intangible			
Casita	\$ 11,442,269	\$ 9,510	\$ 11,451,779
Total- Intangible	11,442,269	9,510	11,451,779
Tangible			
Casita	100,465	-	100,465
Total-Tangible	100,465	-	100,465
Total Exploration and Development Properties			
Casita	\$ 11,542,734	9,510	11,552,244
Total	<u>\$ 11,542,734</u>	<u>\$ 9,510</u>	<u>\$ 11,552,244</u>

### 13. Geothermal properties

Development costs related to the San Jacinto project that are not yet in operation were \$1,268,651 as at September 30, 2018 and \$15,780,153 as at December 31, 2017. The decrease relates to costs for the San Jacinto Project that were placed into service during the nine months ended September 30, 2018 and transferred to property, plant and equipment.

### 14. Property, plant and equipment, net

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

	December 31, 2017	2018 Activity	2018 Transfers from Geothermal Properties	September 30, 2018
San Jacinto project	\$ 498,767,905	\$ 461,182	\$ 19,231,096	\$ 518,460,183
Accumulated depreciation	(139,676,290)	(16,899,235)	-	(156,575,525)
Accumulated impairment	(38,940,166)	-	-	(38,940,166)
Capital spares	3,326,976	491,025	-	3,818,001
	<u>\$ 323,478,425</u>	<u>\$ (15,947,028)</u>	<u>\$ 19,231,096</u>	<u>\$ 326,762,493</u>

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 \$16,899,235 and \$16,082,630 for the nine months ended September 30, 2018 and 2017, respectively, was recorded in the consolidated statements of operations and comprehensive loss.

# Polaris Infrastructure Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2018 and 2017 (unaudited)

(expressed in United States dollars unless otherwise noted)

### 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 nine months ended September 30, 2018 and 2017 was \$157,032 and \$157,259, respectively.

### 16. Accounts payable and accrued liabilities

	September 30, 2018	December 31, 2017
Trade payables	\$ 1,912,634	\$ 1,256,615
Construction payables	19,168	640,174
Construction accrued liabilities	573,428	3,360,885
Interest payable	398,343	530,406
Other accrued liabilities	2,785,165	3,331,201
	<b>\$ 5,688,738</b>	<b>\$ 9,119,281</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, 2017	\$36,332,030	\$13,441,909	\$ 99,887,513	\$18,549,210	\$168,210,662	\$ 863,918	\$169,074,580
Accrued interest expense	-	-	-	-	-	17,093	17,093
Return enhancement	-	46,658	-	(144,559)	(97,901)	-	(97,901)
Accretion of deferred transaction costs	348,511	-	558,567	-	907,078	-	907,078
Repayments of debt	(2,756,394)	(770,794)	(5,294,912)	(732,738)	(9,554,838)	-	(9,554,838)
Effect of foreign exchange on loans	-	-	-	-	-	(26,776)	(26,776)
Loans and other borrowings – September 30, 2018	\$33,924,147	\$12,717,773	\$ 95,151,168	\$17,671,913	\$159,465,001	\$ 854,235	\$160,319,236
Current	\$ 4,177,405	\$ 1,137,839	\$ 6,892,900	\$ 1,038,045	\$ 13,246,189	\$ 854,235	\$ 14,100,424
Non-current	29,746,742	11,579,934	88,258,268	16,633,868	146,218,812	-	146,218,812
Unamortized transaction costs/return enhancement	1,504,309	(1,596,368)	4,069,520	(1,795,925)	2,181,536	-	2,181,536
Principal balance	\$35,428,456	\$11,121,405	\$ 99,220,688	\$15,875,988	\$161,646,537	\$ 854,235	\$162,500,772
Maturity date	12/15/2024	12/15/2025	12/15/2028	6/15/2029		12/31/2011	

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
<b>Phase I Facility</b>				
Interest recorded as financing cost	\$ 1,121,221	\$ 1,206,763	\$ 3,336,715	\$ 3,602,338
Accretion recorded as financing cost	113,358	122,013	348,511	370,847
<b>Phase II Facility</b>				
Interest recorded as financing cost	2,526,478	2,685,038	7,372,979	7,977,672
Accretion recorded as financing cost	182,893	193,909	558,565	588,805
<b>Other</b>				
Interest recorded as financing cost	5,973	5,092	17,093	13,488
<b>Total</b>				
Interest recorded as financing cost	\$ 3,653,672	\$ 3,896,893	\$ 10,726,787	\$ 11,593,498
Accretion recorded as financing cost	296,251	315,922	907,076	959,652

#### (a) Credit agreements

As at September 30, 2018 and September 30, 2017, the interest rate on the Phase I and Phase II senior facilities was LIBOR + 5.5% (7.83%) and LIBOR + 6.5% (7.82%), respectively. Interest on the Phase I and Phase II 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 its subsidiaries other than PENSA and SJPIC.

# Polaris Infrastructure Inc.

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### (b) Loan from former shareholder

The Company assumed a loan from a former shareholder of Western Geothermal Power, Inc 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 September 30, 2018, the Company continues to accrue interest at the Royal Bank of Canada's prime rate of 3.70%. No interest was paid for this loan during the nine months ended September 30, 2018 and 2017.

### 18. Decommissioning liabilities

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

December 31, 2017	\$	1,151,187	\$	1,772,302	\$	795,244	\$	3,718,733
Revision in estimate		(8,300)		(19,280)		(8,651)		(36,231)
Accretion		15,089		28,274		12,687		56,050
September 30, 2018	\$	1,157,976	\$	1,781,296	\$	799,280	\$	3,738,552

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

	Undiscounted Costs	Discount Rates	
		September 30, 2018	December 31, 2017
South Meager	1,190,676	2.19%	1.69%
Orita	1,841,147	2.58%	1.91%
Sierra	826,133	2.58%	1.91%

### 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, 2017	15,675,278	15,675,278	189,522	26,191	77,566
RSUs and DSUs vested	-	-	-	-	81,566
Stock options vested	-	-	8,000	-	-
Warrants expired	-	-	-	(26,191)	-
Shares issued	3,021	3,021	-	-	-
Balance at September 30, 2018	15,678,299	15,678,299	197,522	-	159,132

### (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.

The following table reconciles stock options outstanding as at September 30, 2018 and December 31, 2017:

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	For the nine months ended September 30, 2018	Weighted Average Exercise Price	For the year ended December 31, 2017	Weighted Average Exercise Price (CDN)
Balance at beginning of period	678,108	\$ 16.16	171,397	\$ 14.65
Granted during the period	-	-	510,000	16.89
Exercised during the period	-	-	(3,021)	14.60
Forfeited during the period	-	-	(68)	460.00
Expired during the period	-	-	(200)	460.00
Balance at end of period	678,108	\$ 16.16	678,108	\$ 16.16

The following table summarizes the information related to stock options outstanding as at September 30, 2018:

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	678,108	3.9	\$ 16.16	197,522	\$ 15.52
	678,108	3.9	\$ 16.16	197,522	\$ 15.52

For the nine months ended September 30, 2018 and 2017, the Company recognized share-based compensation expense associated with options, with a corresponding increase in contributed surplus, of \$97,874 and \$139,062, 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 \$(667,887) and \$774,063 for the nine months ended September 30, 2018 and 2017, 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. The Company recognized a (reduction)/increase in the fair value of the liability and related share-based compensation expense associated with DSUs of \$(23,604) and \$11,236 for the nine months ended September 30, 2018 and 2017, respectively.

### (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.

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### (c) Per share amounts

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

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Total earnings (loss) and comprehensive earnings (loss) attributable to owners of the Company	\$ 3,980,091	\$ 889,579	\$ 8,402,179	\$ 911,376
Basic weighted average number of shares outstanding	15,678,299	15,674,278	15,678,089	15,673,615
Basic earnings (loss) per share	\$0.25	\$0.06	\$0.54	\$0.06

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Total earnings (loss) and comprehensive earnings (loss) attributable to owners of the Company	\$ 3,980,091	\$ 889,579	\$ 8,402,179	\$ 911,376
Diluted weighted average number of shares outstanding	15,682,834	15,702,843	15,701,355	15,693,987
Diluted earnings (loss) per share	\$0.25	\$0.06	\$0.54	\$0.06

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

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Stock options - 12/20/2017 grant date	510,000	-	510,000	-
Stock options - 12/2/2016 grant date	144,108	-	-	-
Stock options - 11/16/2012 grant date	-	200	-	200
Deferred stock units	4,839	-	-	-
Warrants	-	26,191	-	26,191
Total anti-dilutive instruments	658,947	26,391	510,000	26,391

### (d) 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 (losses) attributed to the non-controlling interest owners in these subsidiaries for the nine months ended September 30, 2018 and 2017 were \$61,868 and \$(730), respectively.

## 20. Related party transactions

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

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Short-term employee benefits	\$ 182,490	\$ 134,267	\$ 462,582	\$ 412,145
Share-based payment	33,970	111,049	193,706	488,070
Total key management compensation	\$ 216,460	\$ 245,316	\$ 656,288	\$ 900,215

# Polaris Infrastructure Inc.

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### 21. Commitments

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

#### Geothermal property lease commitments

	September 30, 2018	December 31, 2017
No later than one year	\$ 30,000	\$ 30,000
For years 2 - 5	120,000	120,000
Thereafter	300,000	300,000
Total commitments for expenditures	\$ 450,000	\$ 450,000

#### Non-cancelable operating lease commitments

	September 30, 2018	December 31, 2017
No later than one year	\$ 15,690	\$ 62,760
For years 2 - 5	78,450	78,450
Thereafter	-	-
Total operating lease commitments	\$ 94,140	\$ 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 September 30, 2018.

### 23. Financial instruments and risk management

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

As at September 30, 2018 and December 31, 2017, 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 5.5% with quarterly interest payments that are variable based upon 3-month LIBOR. The total rate as at September 30, 2018 was 7.83%. 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 \$100,987 in financing costs for the nine months ended September 30, 2018. The Company does not enter into any interest rate hedging contracts to mitigate this risk.

#### (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 September 30, 2018, the Company had net Canadian dollar denominated assets of CDN\$371,763.

The Company determined that a 10% change in the Canadian dollar against the US dollar would have impacted total loss and comprehensive loss by \$28,719 for the nine months ended September 30, 2018. The Company does not enter into any foreign exchange contracts to mitigate this risk.



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### (e) Commodity prices

The Company's commodity consists of power produced. 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.

### (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 related 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 September 30, 2018 and December 31, 2017 was \$15,143,607 and \$12,161,961, 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 September 30, 2018:

	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years	Total
Accounts payable and accrued liabilities	\$ 5,688,738	\$ -	\$ -	\$ -	\$ 5,688,738
Debt, current and long-term	14,100,424	33,171,534	40,741,242	74,487,572	162,500,772
Interest obligations	11,904,172	20,564,792	14,928,514	13,973,429	61,370,907
	\$ 31,693,334	\$ 53,736,326	\$ 55,669,756	\$ 88,461,001	\$ 229,560,417

Interest on the San Jacinto Project credit facilities is due and payable quarterly and is currently estimated to be approximately \$3 million each quarter. The Company plans to make payments of interest on the San Jacinto project credit facilities out of its current cash and cash generated by operations.

## 24. Capital management

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

- i) maintain financial flexibility to preserve the Company's access to capital markets and its ability to meet its financial obligations; and

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- 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.

### 25. Subsequent events

Subsequent to the quarter ended September 30, 2018, the Company announced the acquisition of 100% of the issued and outstanding shares of Union Energy Group Corp. ("UEG"). Purchase consideration at closing consists of 600,000 common shares of the Company ("Shares") plus 300,000 warrants exercisable at a 20% premium to the closing Share price. Upon completion of certain project construction milestones, further purchase consideration of 600,000 Shares and \$396,000 in cash will become payable. UEG is an owner and developer of run-of-river hydro projects located in Peru. Due to the timing of the close of the transaction, the determination of the fair value of consideration, assets acquired and liabilities assumed is not yet complete.