Consolidated Financial Statements of

Polaris Infrastructure Inc.

December 31, 2018 and 2017

(Expressed in United States dollars)

Polaris Infrastructure Inc.

December 31, 2018 and 2017

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Independent auditor's report

To the Shareholders of
Polaris Infrastructure Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Polaris Infrastructure Inc. and its subsidiaries (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2018 and 2017;
- the consolidated statements of operations and comprehensive earnings for the years then ended;
- the consolidated statements of changes in total equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Michael Eric Clarke.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 6, 2019

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

	Note Ref	As at December 31, 2018	As at December 31, 2017
Assets			
Current assets			
Cash		37,808,557	$ 37,217,120
Accounts receivable	11	15,225,615	12,161,961
Prepaid expenses	12	1,063,989	787,976
		54,098,161	50,167,057
Restricted cash	13	8,612,344	1,509,164
Other assets, net	12	8,881,809	802,204
Construction in progress	14	58,197,340	27,322,887
Property, plant and equipment, net	15	328,948,092	323,478,425
Intangible assets, net	16	3,768,774	3,978,151
Deferred tax asset, net	24	5,351,802	-
Total assets		$ 467,858,322	$ 407,257,888
Liabilities and Total Equity			
Current liabilities			
Accounts payable and accrued liabilities	17	$ 25,965,379	$ 9,119,281
Current portion of long-term debt, net	18	14,377,437	12,720,843
		40,342,816	21,840,124
Other liabilities			
Long-term debt, net	18	172,742,780	156,353,737
Warrant liability	20	145,703	-
Contingent liabilities	5	6,170,375	-
Decommissioning liabilities	19	4,004,817	3,718,733
Deferred tax liability, net	24	46,002,151	38,136,676
Total liabilities		269,408,642	220,049,270
Non-controlling interests	20	(353,878)	(415,746)
Equity attributable to the owners of the Company			
Share capital	20	598,792,821	598,719,423
Contributed surplus	20	19,496,230	11,120,419
Accumulated deficit		(419,485,493)	(422,215,478)
Total equity attributable to the owners of the Company		198,803,558	187,624,364
Total equity		198,449,680	187,208,618
Total liabilities and total equity		$ 467,858,322	$ 407,257,888

The accompanying notes are an integral part of these interim condensed 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

(expressed in United States dollars)

	Note Ref	Year Ended December 31, 2018	Year Ended December 31, 2017
Revenue	6	$ 68,824,141	$ 60,106,603
Direct costs			
Other direct costs	8	(7,241,263)	(6,392,722)
Depreciation and amortization of plant assets	8	(22,902,576)	(21,732,395)
General and administrative expenses	8	(4,274,033)	(4,259,492)
Other operating costs		(458,076)	(377,574)
Operating income		33,948,193	27,344,420
Interest income		763,872	535,588
Finance costs	9	(16,591,844)	(17,340,764)
Other gains (losses)	10	1,180,805	(611,970)
Earnings and comprehensive earnings before income taxes		19,301,026	9,927,274
Income tax expense	24	(7,102,235)	(8,253,503)
Total earnings and comprehensive earnings		$ 12,198,791	$ 1,673,771
Total earnings and comprehensive earnings attributable to:			
Owners of the Company		$ 12,136,923	$ 1,663,862
Non-controlling interests		$ 61,868	$ 9,909
Basic earnings per share		$0.77	$0.11
Diluted earnings per share		$0.74	$0.11

The accompanying notes are an integral part of these interim condensed 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 Surplus	Accumulated Deficit	Total Attributable to the Owners of the Company	Non-Controlling Interests	Total Equity
	Shares	Amount					
Balance at January 1, 2017	**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 payable	-	-	-	(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**
Share-based compensation	3,021	73,398	136,813	-	210,211	-	210,211
Dividends payable	-	-	-	(9,406,938)	(9,406,938)	-	(9,406,938)
Acquisition shares to be issued			8,238,998	-	8,238,998	-	8,238,998
Total earnings and comprehensive earnings	-	-	-	12,136,923	12,136,923	61,868	12,198,791
Balance at December 31, 2018	**15,678,299**	**598,792,821**	**19,496,230**	**(419,485,493)**	**198,803,558**	**(353,878)**	**198,449,680**

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

Polaris Infrastructure Inc.
Consolidated Statements of Cash Flows
(expressed in United States dollars)

	Year Ended	
	December 31, 2018	December 31, 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	$ 12,136,923	$ 1,663,862
Deduct items not affecting cash:		
Non-controlling interests in net loss of subsidiary	61,868	9,909
Deferred income tax expense	7,102,235	8,253,503
Finance costs recognized	14,446,007	15,481,721
Depreciation and amortization	22,917,315	21,757,026
Accretion of decommissioning liability	79,053	52,688
Change in decommissioning liabilities	207,031	(41,006)
Gain on bargain purchase	(902,782)	-
Gain on extinguisment of debt	(816,671)	-
Gain on valuation of warrant liabilities	(143,839)	-
Gain on valuation of contingent liabilities	(44,361)	
Accretion on debt	1,407,086	1,271,600
Share-based compensation	(746,609)	1,238,940
Unrealized foreign exchange loss	(70,549)	56,053
Changes in non-cash working capital:		
Accounts receivable	(2,995,360)	(138,680)
Prepaid expenses	(222,609)	131,472
Accounts payable and accrued liabilities	(591,063)	(251,053)
Interest and return enhancement paid	(14,413,661)	(14,749,984)
	37,410,014	34,736,051
Investing		
Change in restricted cash	2,219,971	(4,586)
Change in accounts payable and accrued liabilities related to projects	(5,183,842)	3,184,424
Changes in other assets	(1,716,456)	(110,563)
Additions to construction in progress	(8,835,903)	(26,271,563)
Additions to property, plant and equipment	(1,357,399)	(1,895,056)
Cash acquired in business combination (Note 5)	137,294	-
	(14,736,335)	(25,097,344)
Financing		
Dividends paid	(9,406,938)	(8,306,794)
Repayment of debt	(12,675,309)	(9,857,755)
	(22,082,247)	(18,164,549)
Foreign exchange loss on cash held in foreign currency	5	3,954
Net increase in cash	591,437	(8,521,888)
Cash, beginning of period	37,217,120	45,739,008
Cash, end of period	$ 37,808,557	$ 37,217,120

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

1. Organization

Polaris Infrastructure Inc. (the "Company") is a corporation existing under the British Columbia Business Corporations Act. The registered office of the Company is located at 666 Burrard Street, Suite 1700, Vancouver, British Columbia V6C 2X8.

The Company is engaged in the acquisition, exploration, development and operation of geothermal and hydroelectric 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. The Company, through its subsidiary Empresa de Generacion Electric, SAC ("EGECSAC") owns and operates a run-of-river hydroelectric project with a rated capacity of approximately 5 MW located in the Canchayllo district of Peru.

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 assets under development and construction are recorded as construction in progress and 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, 2019.

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). Restricted cash is classified as a long-term asset and includes project guarantees and bonds, which are required to be held for longer than 12 months under the various contracts and agreements to develop and operate the Company's projects.

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. Intangible assets with indefinite lives are not amortized, but are reviewed for impairment when indications exist.

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.

Construction in progress ("CIP") 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.

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.

Construction in progress

Costs related to projects in development, including acquisition costs, are capitalized during the development stage as CIP provided that completion of the project is considered by management to be probable. The costs of completed projects are allocated to property, plant and equipment when the assets are available for use and are amortized on a straight-line basis over the estimated life of the project assets.

Costs of unsuccessful projects are written off in the period when management determines that the successful completion of the project or the recovery of such costs can no longer be reasonably regarded as probable. The recovery of power project development costs included in CIP is dependent upon the successful completion or the sale of the project. The successful completion of the power project is dependent upon receiving the necessary water, environmental and other licences, being awarded a power purchase agreement ("PPA"), obtaining the necessary project financing to successfully complete the development and construction of the project, and the long term generation and sale of sufficient electricity on a profitable basis. Recurring costs of maintaining the Company's development properties not currently under active development are recognized as an expense.

Costs capitalized as construction in progress are assessed for impairment when facts and circumstances suggest that the carrying amount of the project 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 CIP 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 two reportable operating segments, the first being the acquisition, exploration, development and operation of geothermal projects, which is conducted principally in Nicaragua, and the second being the acquisition, exploration, development and operation of hydroelectric projects, which is conducted principally in Peru. The Company's chief operating decision maker evaluates the performance of the Company's reportable operating segments, 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.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of a business acquisition is measured at the aggregate of the fair values at the date of exchange of assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

To the extent the fair value of consideration paid exceeds the fair value of the net identifiable tangible and intangible assets, the excess is recorded as goodwill. To the extent the fair value of consideration paid is less than the fair value of net identifiable tangible and intangible assets, the excess is recognized in net income.

When a business combination is achieved in stages, previously held interests in the acquired entity are re-measured to fair value at the acquisition date, which is the date control is obtained, and the resulting gain or loss, if any, is recognized in net income, other than amounts transferred directly to retained earnings. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to net income.

Use of estimates

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

CIP 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 cease capitalization of costs and transfer assets from CIP 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.

Other estimates and assumptions utilized in the preparation of the company's consolidated financial statements are: the assessment or determination of net recoverable amount; depreciation and amortization rates and useful lives; estimation of recoverable amounts of cash-generating units for impairment assessments of goodwill and intangible assets; ability to utilize tax losses and other tax measurements; and determining fair value of assets and liabilities acquired in business combinations.

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.

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.

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 has replaced 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 introduced a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and is available for earlier adoption. The Company adopted earlier versions of IFRS 9 during the year-ended December 31, 2015. The final amendments effective for 2018 did not impact the company's financial reporting.

Accounting Standards issued but not yet effective

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.

IFRS 16, Leases, will replace IAS 17 which covers accounting for leases. The new model requires the lessee to recognize almost all lease contracts on the balance sheet as a lease liability reflecting future lease payments and a 'right-of-use asset'; the only optional exemptions are for certain short-term leases and leases of low-value assets. The new guidance will also require the part of the lease payments that reflects interest on the lease liability to be presented as an operating cash flow and cash payments for the principal portion of the lease liability to be presented within financing activities.

The Company is in process of completing the preliminary quantification of adopting IFRS 16 but does not expect the adoption of the new standard to materially impact the financial statements.

4. Reclassification Adjustments

The Company previously reported its projects under development as exploration and development properties and geothermal properties, depending on the stage of development of each project. The Company has changed its presentation to combine all projects under development and present the aggregate amount as construction in progress. The new presentation allows for flexibility in the types of projects that may be classified as construction in progress, including geothermal and hydroelectric projects. The type and amount of costs capitalized under the old presentation in prior periods remains unchanged.

	As at December 31, 2017	Reclassification Adjustments	As at December 31, 2017
Exploration and development properties	11,542,734	(11,542,734)	-
Geothermal properties	15,780,153	(15,780,153)	-
Construction in progress	-	27,322,887	27,322,887
	27,322,887	-	27,322,887

5. Business Combination

Union Energy Group Corp. ("UEG") was incorporated in the British Virgin Islands on January 11, 2011. The name of UEG was changed to Polaris Energy Peru Corp. The address of its registered office is Palm Chambers, Road Town, Tortola, British Virgin Islands. UEG and its subsidiaries are engaged in the acquisition, development and operation of hydroelectric power in Peru. The Company acquired all the shares of UEG on October 30, 2018 (the "UEG Acquisition"). UEG and its wholly-owned subsidiaries as follows are consolidated by the Company since that date.

Subsidiary	Place of incorporation
Union Energy Group	British Virgin Islands
Andean Power Generation Ltd	British Virgin Islands
Andean Power Generation SAC	Perú
CIA Energetica del Norte SAC	Perú
Empresa de Generacion Electric	Perú
Energia Renovable de Los Andes	Perú
Hydro Amazonas SAC	Perú
Hydro Energias Peru SA	Perú
Hidroelectrica Karpa SAC	Perú
Nueva Esperanza	Perú
Operacion y Mantenimiento Peru	Perú
Puglush Energia SAC	Perú
Peru Hydro & Light SAC	Perú
Generación Andina SAC	Perú

Under the terms of the UEG Acquisition, PIF acquired all of the 1,069,208 issued and outstanding UEG shares by way of a share purchase agreement. Pursuant to the UEG Acquisition, Union Group received the following consideration with a value of $8,528,541.

i. 600,000 PIF shares valued at a share price of CAD$9.61 and CAD to USD foreign exchange rate of $1.3133 Canadian dollars to one US dollar, to be delivered to be delivered to Union Group on the later of the closing date of the UEG Acquisition (the "Closing Date") and the date on which Union Group delivers to PIF a tax basis certificate obtained from the Peruvian Tax Administration (SUNAT) to certify the cost of the Purchased Shares (the "Peruvian Tax Certificate"). As of the date hereof, the Peruvian Tax Certificate has not been delivered to PIF. The total value of this consideration is $4,390,467 and is recognized as equity.
ii. 300,000 warrants delivered to Union Group on the later of the Closing Date and the date on which Union Group delivers to PIF the Peruvian Tax Certificate. Each warrant affords Union Group the right to purchase a PIF Share at an exercise price of CAD$11.76888 for a period of two years following the Acquisition Date. The warrants are valued using a Black Scholes model using a stock price of CAD$9.61, an exercise price of CAD$11.76888, contractual term of 2 years, annualized volatility (based on PIF stock) of 44.85%, annual rate of quarterly dividends of 6.24%, a discount rate of 2.26% based on Canadian marketable bonds with average maturities of 1-3 years, and a foreign exchange rate of $1.3133 Canadian dollars to one US dollar, resulting in a value of $289,542. The warrants are recognized as a liability because they are denominated in Canadian dollars, which is different from the entity's functional currency, resulting in a variable amount of cash to be received upon exercise.
iii. Subject to the fulfillment of certain conditions by Union Group, up to 600,000 PIF shares, to be delivered to Union Group on the earlier of (i) the date that is ten days following the date on which the latter of (A) the El Carmen hydroelectric project located in the Monzon district, Huamalies province, Peru (the "8 de Agosto Project"), and (B) the 8 de Agosto hydroelectric project located in the Monzon district, Huamalies province, Peru (the "8 de Agosto Project" and, together with the El Carmen Project, the "Projects") achieves commercial operation as certified by the System Economic Operation Committee of Peru ("COD"); and (ii) the date that is 30 months from the Acquisition Date. The fair value of the deferred consideration is based on the future estimated fair value of the shares excluding dividend cash flows in year 1 and 2 and a discount rate of 6% based on PIF's cost of equity, resulting in a value of $3,848,531. The Company assumed these shares will be issued two years after the acquisition date. The deferred consideration shares are recognized as equity.

In addition, in connection with a reorganization of the direct and indirect subsidiaries of UEG (the "Subsidiaries") which occurred concurrently with the closing of the UEG Acquisition, Polaris agreed to issue consideration to former shareholder lenders of the Subsidiaries (the "Shareholder Lenders") in exchange for the disposition of all of such Shareholder Lenders' equity interest in the Subsidiaries. The total value of this consideration is $6,214,736 and recognized as a liability by the Company and assumes the projects achieve commercial operation within two years after the acquisition date. The consideration is to be issued as follows:

i. Payment of PIF Shares to certain Shareholder Lenders on the basis of USD$250,000 per each GWh in excess of 180 GWh generated by the Projects measured based on the annual average delivery to the Peruvian National Grid during the first two years following COD, and which amount shall be (i) up to a aggregate maximum of USD$7,400,000, with a net present value of $5,861,509 using a discount rate of 6%, and (ii) payable on the date that is no later than 90 days following the two year anniversary date of COD;
ii. Cash payments to certain Shareholder Lenders of an aggregate amount of $275,049 upon achievement of commercial operation of the 8 de Agosto Project and an aggregate amount of $121,836 upon achievement of commercial operation of the El Carmen Project, with a net present value of $353,227 using a discount rate of 6%

As this transaction has only recently closed and due to complexities in determining fair values of certain assets and liabilities acquired, the determination of the fair value of assets acquired and liabilities assumed is not yet complete and are subject to further adjustments. The Company has recorded a provisional gain on bargain purchase of $902,782 as the current unallocated portion of the purchase price. The Company will update the purchase price allocation when the determination of the fair value is complete. The provisional purchase price allocation with respect to the acquisition is as follows:

	As at October 30, 2018
Cash	137,294
Accounts receivable	68,294
Prepaid expenses	53,404
Restricted Cash	9,323,151
Other assets, net	6,377,887
Construction in progress	41,253,275
Property, plant and equipment, net	7,590,744
Deferred tax asset, net	5,098,493
Less:	
Accounts payable and accrued liabilities	(23,555,530)
Current portion of long-term debt, net	(657,360)
Long-term debt, net	(29,533,664)
Deferred tax liability, net	(509,930)
Net assets acquired	15,646,058
Consideration	(14,743,276)
Gain on bargain purchase	902,782

Construction in progress represents the provisional fair value of the Generación Andina projects, which are under construction. The provisional fair value was calculated using a provisional discounted cash flow analysis.

Property, plant and equipment, net represents the provisional fair value of the Canchayllo project, which has been in operation since 2015. The company used a provisional discounted cash flow analysis to estimate the fair value at acquisition.

Long-term debt represents provisional fair value of debt held for the projects. This preliminary fair value was determined by estimating an effective interest rate for the debt to arrive at a debt discount that will be amortized over the life of the debt.

The provisional estimate of contingent consideration described previously is recognized as a liability in the amount of $5,861,509 for shares of the Company to be delivered two years after commercial operation of the Generación Andina projects and in the amount of $353,227 for cash to be delivered upon achieving commercial operation of the Generación Andina projects. The fair value of the warrants provided to Union Group in the amount of $297,904 was also recognized as part of the consideration liability. The contingent liabilities and warrant liability are revalued each period and the value as at December 31, 2018 was $6,170,375 and $145,703, respectively.

The revenue included in the consolidated statement of operations and comprehensive earnings from October 31, 2018 to December 31, 2018 contributed by this acquisition was $273,149. The acquisition also contributed net loss of $537,791 over the same period. If the acquisition had occurred on January 1, 2018, consolidated pro-forma revenue and net loss for the period ended December 31, 2018 would have been $69.9 million and $5.9 million, respectively. These amounts have been calculated using the acquired businesses' results adjusted for the additional depreciation and amortization that would have been charged assuming the provisional fair value adjustments to property, plant and equipment had applied from January 1, 2018, together with the consequential tax effects

6. Revenue

In the years ended December 31, 2018 and 2017, $68,550,992 and $$60,106,603, 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. Revenue in the amount of $273,149 and $nil for the year ended December 31, 2018 and 2017 was earned from the sale of energy from the Canchayllo project. Under the terms of the Canchayllo PPA, the Company bills at the spot rate for current energy generation. The difference between the spot rate and the PPA rate is calculated annually each May for the previous 12 months and is paid evenly over the following 12 months. The Company recognizes revenue at the PPA rate and records the accrued revenue in connection with the difference between the PPA rate and the spot rate in other assets.

The Company has determined that it has one performance obligation which is the delivery of electricity to its three customers. There is no revenue recognized from unfulfilled performance obligations. Note 11 to these financial statements provides details on the Company's contract balances related to this revenue.

7. Segment information

The Company currently operates in two reportable operating segments, the first being the acquisition, exploration, development and operation of geothermal projects, which is conducted principally in Nicaragua, and the second being the acquisition, exploration, development and operation of hydroelectric projects, which is conducted principally in Peru. The Company's chief operating decision maker evaluates the performance of the Company's reportable operating segments, 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 reported segment earnings, including revenue and expenses, as well as assets and liabilities are presented below. Other expenses, assets and liabilities not related to the Company's reportable operating segments are part of corporate headquarters and other North America projects, which are not considered reportable operating segments, but are presented below for reconciliation purposes to the Company's total loss, revenue, expenses, assets and liabilities in these consolidated financial statements.

	Nicaragua		Peru		Other	
	Year Ended		Year Ended		Year Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Revenue	$ 68,550,992	$ 60,106,603	$ 273,149	$ -	$ -	$ -
Direct costs						
Other direct costs	(7,189,195)	(6,392,722)	(52,068)	-	-	-
Depreciation and amortization of plant assets	(22,798,206)	(21,732,395)	(104,370)	-	-	-
General and administrative expenses	(1,572,021)	(1,555,717)	(572,591)	-	(2,129,421)	(2,703,775)
Other operating costs	42,285	(54,483)	-	-	(500,361)	(323,091)
Operating income	37,033,855	30,371,286	(455,880)	-	(2,629,782)	(3,026,866)
Interest income	495,694	342,170	933	-	267,245	193,418
Finance costs	(16,150,380)	(20,679,498)	(392,947)	-	(48,517)	3,338,734
Other gains (losses)	(618,371)	(586,543)	899,495	-	899,681	(25,427)
Earnings (loss) and comprehensive earnings (loss) before income taxes	20,760,798	9,447,415	51,601	-	(1,511,373)	479,859
Income tax expense	(7,865,474)	(8,253,503)	253,309	-	509,930	-
Total earnings and comprehensive earnings	$ 12,895,324	$ 1,193,912	$ 304,910	$ -	$ (1,001,443)	$ 479,859
Total non-current assets	$ 338,975,530	$ 355,645,024	$ 73,123,401	$ -	$ 1,661,230	$ 1,445,807
Total assets	382,530,622	392,686,152	74,510,048	-	10,817,651	14,571,736
Total liabilities	206,548,644	213,044,514	51,048,463	-	11,811,536	7,004,756

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

	Year Ended	
Revenue	December 31, 2018	December 31, 2017
Nicaragua	$ 68,550,992	$ 60,106,603
Peru	273,149	-
	$ 68,824,141	$ 60,106,603

Comprehensive earnings (loss)	Year Ended	
before income taxes	December 31, 2018	December 31, 2017
Canada	$ (1,194,245)	$ (3,462,530)
United States	(317,128)	531,488
Nicaragua	20,760,798	12,858,316
Peru	51,601	-
	$ 19,301,026	$ 9,927,274

Assets and liabilities	As at December 31, 2018	As at December 31, 2017
Canada	$ 10,518,018	$ 14,228,220
United States	328,285	343,516
Nicaragua	382,501,971	392,686,152
Peru	74,510,048	-
Total assets	$ 467,858,322	$ 407,257,888
Canada	$ 1,411,332	$ 1,195,909
United States	249,898	249,898
Nicaragua	338,975,530	355,645,024
Peru	73,123,401	-
Total non-current assets	$ 413,760,161	$ 357,090,831
Canada	$ 9,023,641	$ 4,404,332
United States	2,787,894	2,600,424
Nicaragua	206,548,644	213,044,514
Peru	51,048,463	-
Total liabilities	$ 269,408,642	$ 220,049,270

8. 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, 2018	December 31, 2017
Depreciation and amortization	$ 22,902,576	$ 21,732,395
Employee costs	3,060,898	2,956,383
General liability insurance	718,721	652,169
Taxes	1,383,987	956,226
Maintenance	2,015,264	1,801,787
Other direct costs	62,393	26,157
	$ 30,143,839	$ 28,125,117

(b) General and administrative expenses

The Company's general and administrative expenses for the year ended December 31, 2018 and 2017 consisted of:

	Year Ended	
	December 31, 2018	December 31, 2017
Salaries and benefits	$ 1,578,021	$ 1,273,436
Share-based compensation	(781,767)	1,266,110
Facilities and support	625,696	530,926
Professional fees	2,361,262	742,985
Insurance	417,485	404,728
Depreciation of other assets	14,739	24,631
Other general and adminstrative expenses	58,597	16,676
	$ 4,274,033	$ 4,259,492

Transaction costs related to the UEG acquisition of $1.6 million are included in professional fees.

9. Finance costs

The Company's finance costs for the year ended December 31, 2018 and 2017 consisted of:

	Year Ended	
	December 31, 2018	December 31, 2017
Interest on debt	$ 14,446,007	$ 15,481,721
Accretion on debt	1,407,086	1,271,599
Accretion of decommissioning liabilities	79,053	52,688
Other finance costs	659,698	534,756
	$ 16,591,844	$ 17,340,764

Cash paid for interest and return enhancement during the year ended December 31, 2018 and 2017 was $14,515,258 and $14,749,984, respectively.

10. Other gains and losses

The Company's other gains and losses for the years ended December 31, 2018 and 2017 consisted of:

	Year Ended	
	December 31, 2018	December 31, 2017
Foreign exchange losses	$ (755,072)	$ (535,876)
Gain on valuation of warrant liabilities	143,839	-
Gain on valuation of contingent liabilities	44,360	-
Gain on bargain purchase	902,782	-
Gain on extinguishment of debt	816,670	-
Other gain (losses)	28,226	(76,094)
	$ 1,180,805	$ (611,970)

11. Accounts receivable

The Company's accounts receivable of $15,225,615 and $12,161,961 as at December 31, 2018 and 2017, 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; and $133,922 and $nil respectively due from its Peruvian customers, related to the operation of the Canchayllo project. Payment terms are 45 days from invoice date for the San Jacinto project and 30 days from invoice date for the Canchayllo project.

The Company is paid the spot rate within 30 days of the invoice date for power generated from the Canchayllo project and is paid the difference between the PPA rate and the spot rate for the contracted energy one year after generation. The receivable for this difference is included in other assets, net.

12. 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, 2018	December 31, 2017
Prepaid insurance	$ 885,419	$ 427,797
Other prepaids	178,570	360,179
	$ 1,063,989	$ 787,976

(b) Other assets, net

	December 31, 2018	December 31, 2017
Recoverable taxes	$ 7,788,835	$ 714,529
Debentures receivable	533,362	-
Investment in affiliate	160,653	-
Other deposits	54,330	64,104
Fixed assets, net	57,634	23,571
Accrued revenue	286,995	-
	$ 8,881,809	$ 802,204

13. Restricted cash

	December 31, 2018	December 31, 2017
Casita exploitation application guarantee	$ 50,000	$ 50,000
San Jacinto guarantees	1,080,000	1,080,000
Peru guarantees and bonds	7,111,778	-
Reclamation bonds - US and Canada	359,950	369,565
Other restricted cash	10,616	9,599
	$ 8,612,344	$ 1,509,164

In addition to amounts recorded as restricted cash, cash in the amount of $27,935,028 and $24,373,990 held by the Company as at December 31, 2018 and 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.

14. Construction in progress

The Company has the following properties under development.

	December 31, 2017	2018 Acquisitions	2018 Activity	2018 Transfers to PP&E	December 31, 2018
San Jacinto Binary Plant	$ 1,136,300	$ -	$ 23,515	$ -	$ 1,159,815
San Jacinto Major Maintenance	2,455	-	711,946	(714,401)	-
Generacion Andina	-	41,117,720	4,017,373	-	45,135,093
Karpa	-	121,527	-	-	121,527
Canchayllo improvements	-	14,027	24,485	-	38,512
Geothermal exploration and development					
San Jacinto Drilling Costs	14,641,398	-	4,044,830	(18,500,323)	185,905
Casita	11,542,734	-	13,754	-	11,556,488
	$ 27,322,887	$ 41,253,274	$ 8,835,903	$ (19,214,724)	$ 58,197,340

The amounts recognized in 2018 on the Generacion Andina projects are related to contractor deposits required to commence construction.

15. Property, plant and equipment, net

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

	December 31, 2017	2018 Acquisitions	2018 Activity	2018 Transfers from Geothermal Properties	December 31, 2018
San Jacinto geothermal project	$ 498,767,905	$ -	$ 747,313	$ 19,214,724	$ 518,729,942
Canchayllo hydroelectric project	-	10,242,176			10,242,176
Accumulated depreciation	(139,676,290)	(2,751,252)	(22,693,200)	-	(165,120,742)
Accumulated impairment	(38,940,166)	-	-	-	(38,940,166)
Capital spares	3,326,976	-	709,906	-	4,036,882
	$ 323,478,425	$ 7,490,924	$ (21,235,981)	$ 19,214,724	$ 328,948,092

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 $22,693,200 and $21,522,792 for the years ended December 31, 2018 and 2017 respectively, was recorded in the consolidated statements of operations and comprehensive loss.

The provisional useful lives of hydroelectric project property, plant and equipment are 20 years. The useful lives of geothermal property, plant and equipment assets currently in service are assigned 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

16. Intangible assets

Amortization expense related to the transmission assets for the San Jacinto project donated to the Nicaraguan utility, ENATREL in December 2011, was $209,377 and $209,603 for the years ended December 31, 2018 and 2017 respectively.

17. Accounts payable and accrued liabilities

	December 31, 2018	December 31, 2017
Trade payables	$ 2,554,635	$ 1,256,615
Construction payables	3,607,546	640,174
Construction accrued liabilities	10,873,075	3,360,885
Share-based compensation liability	1,153,475	2,110,295
Interest payable	470,978	530,406
Other accrued liabilities	12,055,670	1,220,906
	$ 30,715,379	$ 9,119,281

18. 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	Canchayllo Debt	Generacion Andina Debt	Loan from Former 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	-	-	-	-	-	-	-	23,302	23,302
Acquisition of debt	-	-	-	-	-	5,176,080	25,014,574		
Amounts written off	-	-	-	-	-	-	-	(816,671)	(816,671)
Return enhancement	-	80,644	-	(93,891)	(13,247)	-	-	-	(13,247)
Accretion of deferred transaction costs	459,427	-	738,770	-	1,198,197	-	209,260	-	1,407,457
Repayments of debt	(3,616,448)	(1,027,725)	(6,897,912)	(976,984)	(12,519,069)	(156,240)	-	-	(12,675,309)
Effect of foreign exchange on loans	-	-	-	-	-	-	-	(70,549)	(70,549)
Loans and other borrowings – December 31, 2018	$ 33,175,009	$ 12,494,828	$ 93,728,371	$ 17,478,335	$ 156,876,543	$ 5,019,840	$ 25,223,834	$ -	$ 187,120,217
Current	$ 4,423,135	$ 1,174,543	$ 7,053,200	$ 1,058,399	$ 13,709,277	$ 668,160	$ -	$ -	$ 14,377,437
Non-current	28,751,874	11,320,285	86,675,171	16,419,936	143,167,266	4,351,680	25,223,834	-	172,742,780
Unamortized debt discount/return enhancement	1,393,393	(1,630,354)	3,889,317	(1,846,593)	1,805,763	-	18,743,096	-	20,548,859
Principal balance	$ 34,568,402	$ 10,864,474	$ 97,617,688	$ 15,631,742	$ 158,682,306	$ 5,019,840	$ 43,966,930	$ -	$ 207,669,076
Maturity date	12/15/2024	12/15/2025	12/15/2028	6/15/2029		3/31/2025	6/15/2038	12/31/2011	

	Year Ended December 31, 2018	Year Ended December 31, 2017
Phase I Facility		
Interest recorded as financing cost	$ 4,446,904	$ 4,803,876
Accretion recorded as financing cost	459,427	491,250
Phase II Facility		
Interest recorded as financing cost	9,898,298	10,659,096
Accretion recorded as financing cost	738,770	780,349
Canchayllo Debt		
Interest recorded as financing cost	77,503	-
Generacion Andina Debt		
Accretion recorded as financing cost	209,260	-
Other		
Interest recorded as financing cost	23,302	18,749
Accretion recorded as financing cost	(371)	-
Total		
Interest recorded as financing cost	$ 14,446,007	$ 15,481,721
Accretion recorded as financing cost	1,407,086	1,271,599

(a) Credit agreements

Summary of Phase I and Phase II Credit Agreements

As at December 31, 2018 and 2017, interest rates on the Phase I and Phase II senior facilities were 8.29% and 8.09%, 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.

Summary of Canchayllo Credit Agreement

As at December 31, 2018, interest rates on the Canchayllo credit facility ranged from 7.375% to 8.65%. Approximately 62% of the outstanding principal of the loan bears fixed interest rates of 8.65% and 7.6%, and the remainder bears interest at the 3 Month Libor rate plus 5%. All loans mature in March 2025 and principal and interest is paid quarterly.

All debt drawn on the Canchayllo credit facility is non-recourse to the Company and all of its subsidiaries other than EGECSAC.

Summary of Generacion Andina Credit Agreement

As at December 31, 2018, the Generacion Andina ("GA") loans bear no interest. No interest will be charged during the life of the loan, except for default interest on any overdue amount. The termination date of the loan is June 15, 2038. The loan is payable in 36 semi-annual installments starting at the earlier the commercial operation date ("COD") of the 8 de Agosto and El Carmen projects and June 16, 2020 and on the 15th calendar day each 6 months thereafter.

In addition to principal payments, the lenders will be paid 50% of any excess generation amount for each project in excess of 45 GWh from the El Carmen project and in excess of 132 GWh from the 8 de Agosto project, subject to a maximum incremental annual amount, which varies from $1.1 million to $1.4 million during the term of the loan. GA will also pay the lenders 50% of all net transmission line revenues received in the preceding 6 months from use of transmission line by third parties.

(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 was denominated in Canadian dollars and interest was 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, 2018, the Company wrote off the loan and reverted the interest accrued during the year 2018. No interest was paid for this loan during the year ended December 31, 2018 and 2017.

19. Decommissioning liabilities

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

	South Meager	Orita	Sierra	Total
December 31, 2017	$ 1,151,187	$ 1,772,302	$ 795,244	$ 3,718,733
Revision in estimate	78,734	88,561	39,736	207,031
Accretion	21,432	39,774	17,847	79,053
December 31, 2018	$ 1,251,353	$ 1,900,637	$ 852,827	$ 4,004,817

The Company extended its estimated reclamation date from December 31, 2019 to December 31, 2021 during the year ended December 31, 2018. The following assumptions were used in the determination of the Company's decommissioning liabilities:

		Discount Rates	
	Undiscounted Costs	December 31, 2018	December 31, 2017
South Meager	1,322,992	1.86%	1.69%
Orita	2,045,747	2.46%	1.91%
Sierra	1,123,195	2.46%	1.91%

20. 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 Agreements	Number of Shares Reserved for Issue Under UEG Acquisition
Balance at December 31, 2017	15,675,278	15,675,278	189,522	26,191	77,566	-
RSUs and DSUs vested	4,000	-	-	-	77,566	-
Stock options vested	-	-	77,043	-	-	-
Warrants expired	-	-	-	(26,191)	-	-
Warrants issued	-	-	-	300,000	-	-
UEG acquisition closing and COD shares	600,000	-	-	-	-	600,000
UEG acquisition contingent shares	-	-	-	-	-	932,405
Shares issued	3,021	3,021	-	-	-	-
Balance at December 31, 2018	16,282,299	15,678,299	266,565	300,000	155,132	1,532,405

(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:

Option Series		Number of Options Granted	Grant Date	Expiry Date	Exercise Price ($CDN)	Fair Value at Grant Date
(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
(16)	Issued December 10, 2018	60,000	December 10, 2018	December 10, 2023	$9.93	$0.48

Stock options granted during the year ended December 31, 2018 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:

Options Series	Grant date	Grant Date Share Price (CDN)	Exercise Price (CDN)	Volatility	Expected Life	Risk-Free Interest Rate	Expected Dividend Yield	Revised Forfeiture Percentage
(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%
(16)	December 10, 2018	$9.93	$9.93	48%	4.00	2.00%	25.02%	0%

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. Stock options granted in series 16 vest 33% immediately and 33% on each December 10, 2019 and December 10, 2020.

During the years ended December 31, 2018 and 2017, 77,043 and 184,543 stock options vested, respectively.

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

	For the Year Ended December 31, 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	60,000	9.93	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	738,108	$ 15.65	678,108	$ 16.16

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, 2018:

	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	738,108	3.8	$ 15.65	266,565	$ 14.93
	738,108	3.8	$ 15.65	266,565	$ 14.93

For the years ended December 31, 2018 and 2017, the Company recognized shared-based compensation expense associated with options, with a corresponding increase in contributed surplus, of $143,773 and $430,029, 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:

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 a reduction to share-based compensation expense associated with RSUs of $894,996 and share-based compensation expense of $823,732 for the years ended December 31, 2018 and 2017, respectively. RSU participants exercised 4,000 RSUs in 2018 with shares delivered in 2019.

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 a reduction to share-based compensation expense of $30,543 and share based compensation expense of $12,349 in connection with the DSUs for the years ended December 31, 2018 and 2017, respectively.

Warrants

The Company agreed to issue 300,000 warrants on October 30, 2018 as part of the consideration given in the UEG acquisition. The warrants will be delivered to Union Group upon delivery of the Peruvian Tax Certificate. The exercise price of the warrants is Cdn$11.76888 and the warrants expire on October 30, 2020. The warrants were valued using a Black Scholes model using a current stock price of $10.30, an exercise price of Cdn$11.76888, a contractual term of 1.75 years, volatility based on the Company's stock of 50.35%, annual rate of dividends of 25.85%, a discount rate of 1.85% and an exchange rate of $1.3642 Canadian dollars to one US dollar. The value as of December 31, 2018 was $145,703 and was recorded as a warrant liability, which will be revalued each reporting period.

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, 2018 and 2017. The warrants expired 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. Contributed surplus also includes consideration to be issued in the UEG acquisition.

(c) Per share amounts

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

	Year Ended	
	December 31, 2018	December 31, 2017
Total earnings (loss) and comprehensive earnings (loss) attributable to owners of the Company	$ 12,136,923	$ 1,663,862
Basic weighted average number of shares outstanding	15,829,656	15,674,034
Basic earnings (loss) per share	$0.77	$0.11

	Year Ended	
	December 31, 2018	December 31, 2017
Total earnings (loss) and comprehensive earnings (loss) attributable to owners of the Company	$ 12,136,923	$ 1,663,862
Diluted weighted average number of shares outstanding	16,511,247	15,700,510
Diluted earnings (loss) per share	$0.74	$0.11

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

	Year Ended	
	December 31, 2018	December 31, 2017
Stock options - 12/20/2017 grant date	510,000	510,000
Stock options - 12/2/2016 grant date	144,108	-
Deferred stock units	4,839	-
Warrants - 10/30/2018	-	26,191
Total anti-dilutive instruments	658,947	536,191

(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, 2018 and 2017 were $9,909 and ($9,909), respectively.

21. Related party transactions

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

	Year Ended	
	December 31, 2018	December 31, 2017
Short-term employee benefits	$ 948,096	$ 756,917
Share-based payment	239,604	836,017
Total key management compensation	$ 1,187,700	$ 1,592,934

22. 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

	December 31, 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

	December 31, 2018	December 31, 2017
No later than one year	$ 62,760	$ 62,760
For years 2 - 5	15,690	78,450
Thereafter	-	-
Total operating lease commitments	$ 78,450	$ 141,210

23. 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, 2018.

Empresa de Generacion Electric, SAC (“EGECSAC”) is a respondent in a legal claim pending for approximately $0.9 million with a previous shareholder for payment of a shareholder loan. In the provisional determination of liabilities acquired, the Company has recognized a provision for this amount in accounts payable and accrued liabilities.

Nueva Esperanza, Peru Hydro & Light and Hidroelectrica Karpa SAC are respondents in a legal claim pending for approximately $0.2 million arising out of a dispute with a vendor. In the provisional determination of liabilities acquired, the Company has recognized a provision for this amount in accounts payable and accrued liabilities.

EGECSAC, Nueva Esperanza, UEG and GA are respondents in a legal claim pending for approximately $0.5 million arising out of a dispute with a previous shareholder of EGECSAC. In the provisional determination of liabilities acquired, 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, 2018.

24. Income taxes

(a) Income tax expense

The Company has recorded the following deferred tax expense / (recovery) for the years ended December 31, 2018 and 2017

		December 31, 2018		December 31, 2017
Current tax expense				
Current period	$	-	$	-
Deferred tax expense				
Origination and reversal of temporary differences		13,426,484		(2,703,016)
Change in tax rates and rate differences		170,887		26,475,193
Change in unrecognized deductible temporary differences		(6,495,136)		(12,013,751)
Other		-		(3,504,923)
Total income tax expense from continuing operations	$	7,102,235	$	8,253,503

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:

		December 31, 2018		December 31, 2017
Income before tax	$	19,301,028	$	9,927,274
Statutory income tax rate		26.50%		26.50%
Expected income tax		5,114,772		2,630,728
Increase (decrease) resulting from:				
Non-taxable items		(1,706,504)		(11,500,421)
Change in unrecoginized assets		(6,495,136)		(12,013,751)
Change in tax rates and rate differences		170,887		26,475,193
Effect of tax rate in foreign jurisdictions		(962,605)		(4,685,178)
Expiration of tax attributes		6,683,121		10,854,481
Foreign exchange differences		4,063,289		-
Non-controlling interest		-		(2,626)
Other		236,332		(3,504,923)
Prior period adjustments		(1,921)		-
Income tax expense (recovery)	$	7,102,235	$	8,253,503

(b) Recognized deferred tax assets and liabilities

Deferred tax assets are attributable to the following:

		December 31, 2018		December 31, 2017
Tax loss carryforwards	$	4,003,896	$	21,763
Deferred tax assets		12,059,228		21,763
Set off of tax		(6,707,427)		(21,763)
Net deferred tax asset	$	5,351,801	$	-

Deferred tax liabilities are attributable to the following:

		December 31, 2018		December 31, 2017
Property, plant and equipment	$	(46,002,411)	$	(38,136,881)
Investment in UEG	$	(1,178,149)	$	-
Foreign exchange on foreign currency election		(27)		(27)
Unrealized foreign exchange		-		(21,531)
Long-term debt		(5,528,991)		-
Deferred tax liabilities		(52,709,578)		(38,158,439)
Set off of tax		6,707,427		21,763
Net deferred tax liability	$	(46,002,151)	$	(38,136,676)

(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, 2018		December 31, 2017
Deductible temporary differences	$	95,003,589	$	86,906,439
Tax losses		263,675,340		276,075,693
	$	358,678,929	$	362,982,132

The Company does not expect to utilize any of the net operating losses carried forward in Nicaragua, totaling $44,042,101 as at December 31, 2018, 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.

25. Financial instruments and risk management

(a) Fair value of financial assets and liabilities

Valuation Techniques

As at December 31, 2018 and 2017, 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 debt discounts further explained in Note 18. The carrying amounts of the Canchayllo and GA projects were recorded at fair value on the acquisition date using a discounted cash flow analysis.

(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 December 31, 2018 was 8.29%. 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 $132,186 in financing costs for the year ended December 31, 2018.

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.

A portion of the Canchayllo loan bears interest at an applicable margin of 5% with quarter interest payments that are variable based upon 3-month LIBOR. The total rate as at December 31, 2018 was 7.375%. The Company determined that a hypothetical 10 basis point increase in the 3-month LIBOR would result in an increase of $1,585 in financing costs for the year ended December 31, 2018.

(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, 2018 and 2017, the Company had cash, accounts payable and long-term debt in of CDN$1,328,117 and (CDN$624,167), respectively. As at December 31, 2018, the Company had cash, accounts receivable, prepaid contractor advances and accounts payable of Sol$624,167 held in its Peruvian subsidiaries.

The Company determined that a 10% change in the Canadian dollar against the US dollar would have impacted total loss and comprehensive loss by $97,351 and $49,752 for the year ended December 31, 2018 and 2017, respectively. The Company determined that a 10% change in the Peruvian Soles against the US dollar would have impacted total loss and comprehensive loss by $19,596 the year ended December 31, 2018. 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. 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 December 31, 2018 and 2017 was $15,225,615 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 December 31, 2018:

	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years	Total
Accounts payable and accrued liabilities	$ 25,965,379	$ -	$ -	$ -	$ 25,965,379
Debt, current and long-term	14,377,436	38,748,331	47,441,358	107,101,651	207,668,776
Interest obligations	12,237,213	20,930,397	14,852,741	13,172,322	61,192,673
	$ 52,580,028	$59,678,728	$62,294,099	$120,273,973	$294,826,828

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.

26. Capital management

The Company's capital structure is comprised of net long-term debt, as further disclosed in Note 16, 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 and the loan agreements for the Canchayllo and GA projects (Note 18). 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, SJPIC and EGECSAC and restrictions on the use of revenue from all projects.