Consolidated Financial Statements of

Polaris Infrastructure Inc.

December 31, 2019 and 2018

(Expressed in Thousands of United States dollars)

Polaris Infrastructure Inc.

December 31, 2019 and 2018

Table of Contents

Independent Auditor's Report 1-3

Consolidated Balance Sheets 4

Consolidated Statements of Operations and Comprehensive Earnings 5

Consolidated Statements of Changes in Total Equity 6

Consolidated Statements of Cash Flows 7

Notes to the Consolidated Financial Statements 8-36

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, 2019 and 2018, 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, 2019 and 2018;
- 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.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

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 4, 2020

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

	Note Ref	As at December 31, 2019	As at December 31, 2018 Restated (note 4)
Assets			
Current assets			
Cash		$ 32,597	$ 37,809
Accounts receivable	10	15,302	15,226
Prepaid expenses		783	1,064
		48,682	54,099
Restricted cash	12	5,941	8,611
Other assets, net	11	7,757	8,882
Construction in progress	13	1,378	35,771
Property, plant and equipment, net	14	370,459	328,816
Intangible assets, net	15	25,678	26,090
Deferred tax asset, net	24	3,849	3,281
Total assets		$ 463,744	$ 465,550
Liabilities and Total Equity			
Current liabilities			
Accounts payable and accrued liabilities	16	17,878	25,686
Current portion of long-term debt, net	17	16,917	14,377
Current portion of lease liabilities	23	252	-
		35,047	40,063
Non-current liabilities			
Long-term debt, net	17	166,754	165,676
Conversion option liability		1,293	-
Warrant liability	19	278	146
Contingent liabilities	4 and 19	6,580	6,170
Lease Liabilities	23	629	-
Decommissioning liabilities	18	2,168	4,005
Deferred tax liability, net	23	43,769	46,001
Total liabilities		256,518	262,061
Non-controlling interests	20	(2,007)	(354)
Equity attributable to the owners of the Company			
Share capital	20	598,982	598,792
Contributed surplus	20	19,623	19,496
Accumulated deficit		(409,372)	(414,445)
Total equity attributable to the owners of the Company		209,233	203,843
Total equity		207,226	203,489
Total liabilities and total equity		$ 463,744	$ 465,550

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

Approved by the Board of Directors

(signed) Marc Murnaghan
Chief Executive Officer

(signed) Jaime Guillen
Director

Polaris Infrastructure Inc.
Consolidated Statements of Operations and Comprehensive Earnings
(expressed in thousands of United States dollars)

	Note Ref	Year Ended December 31, 2019	Year Ended December 31, 2018 Restated (note 4)
Revenue	5	$ 71,251	$ 68,824
Direct costs			
Other direct costs	7	(7,709)	(7,241)
Depreciation and amortization of plant assets	7	(23,414)	(22,857)
General and administrative expenses	7	(5,009)	(4,274)
Impairment loss	13	(11,564)	-
Other operating costs		(403)	(458)
Operating income		23,152	33,994
Interest income		1,062	1,581
Finance costs	8	(18,102)	(16,633)
Other gains (losses)	9	3,930	5,399
Earnings and comprehensive earnings before income taxes		10,042	24,341
Income tax recovery (expense)	24	2,801	(7,102)
Total earnings and comprehensive earnings		$ 12,843	$ 17,239
Total earnings and comprehensive earnings attributable to:			
Owners of the Company		$ 14,496	$ 17,177
Non-controlling interests		$ (1,653)	$ 62
Basic earnings per share	20	$ 0.92	$ 1.10
Diluted earnings per share	20	$ 0.89	$ 1.04

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

Polaris Infrastructure Inc.
Consolidated Statements of Changes in Total Equity
(expressed in thousands of United States dollars, except for share information)

	Note Ref	Common Stock Shares	Common Stock Amount	Contributed Surplus	Accumulated Deficit	Total Attributable to the Owners of the Company	Non-Controlling Interests	Total Equity
Balance at January 1, 2018		**15,675,278**	**598,719**	**11,120**	**(422,215)**	**187,624**	**(416)**	**187,208**
Share-based compensation		3,021	73	137	-	210	-	210
Dividends paid		-	-	-	(9,407)	(9,407)	-	(9,407)
Acquisition shares to be issued		-	-	8,239	-	8,239	-	8,239
Total earnings and comprehensive earnings		-	-	-	17,177	17,177	62	17,239
Balance at December 31, 2018		**15,678,299**	**598,792**	**19,496**	**(414,445)**	**203,843**	**(354)**	**203,489**
Share-based compensation	20	28,000	190	127	-	317	-	317
Dividends paid		-	-	-	(9,423)	(9,423)	-	(9,423)
Total earnings and comprehensive earnings		-	-	-	14,496	14,496	(1,653)	12,843
Balance at December 31, 2019		**15,706,299**	**598,982**	**19,623**	**(409,372)**	**209,233**	**(2,007)**	**207,226**

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

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

	Year Ended December 31, 2019	December 31, 2018 Restated (note 4)
Net inflow (outflow) of cash related to the following activities		
Operating		
Total earnings (loss) and comprehensive earnings (loss) attributable to owners of the Company	$ 14,496	$ 17,177
Deduct items not affecting cash:		
Non-controlling interests in net loss of subsidiary	(1,653)	62
Deferred income tax expense	(2,801)	7,102
Finance costs recognized	15,699	14,487
Depreciation and amortization	23,452	22,871
Accretion of decommissioning liability	68	79
Change in decommissioning liabilities	(1,905)	207
Gain on bargain purchase	-	(5,534)
Gain on extinguishment of debt	-	(817)
Gain on valuation of warrant liabilities	132	(144)
Gain on valuation of contingent liabilities	410	(44)
Gain on valuation of conversion option liability	(2,670)	-
Impairment loss	11,564	-
Accretion on debt	1,106	1,407
Share-based compensation	572	(747)
Unrealized foreign exchange loss	536	(71)
Changes in non-cash working capital:		
Accounts receivable	(76)	(2,995)
Prepaid expenses	281	(223)
Accounts payable and accrued liabilities	(730)	(998)
Interest and return enhancement paid	(13,872)	(14,414)
	44,609	37,405
Investing		
Change in restricted cash	2,670	2,220
Other assets recovery (additions)	2,486	(1,733)
Additions to construction in progress	(47,075)	(14,120)
Additions to property, plant and equipment	(830)	(1,240)
Cash acquired in business combination (Note 4)	-	137
Lease payments	(177)	-
	(42,926)	(14,736)
Financing		
Proceeds from debenture (Note 16)	17,584	-
Dividends paid	(9,423)	(9,407)
Repayment of debt	(15,064)	(12,675)
	(6,903)	(22,082)
Foreign exchange loss on cash held in foreign currency	8	5
Net (decrease) / increase in cash	(5,212)	592
Cash, beginning of the year	37,809	37,217
Cash, end of the year	$ 32,597	$ 37,809

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

1. Organization

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

The Company is engaged in the acquisition, exploration, development and operation of geothermal and hydroelectric energy projects in Latin America.

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 entered into the San Jacinto Exploitation Agreement with Nicaraguan Ministry of Energy and Mines to develop and operate the San Jacinto Project.

Through its subsidiary Empresa de Generación Electrica SAC ("EGECSAC"), the Company owns and operates a run-of-river hydroelectric project with a rated capacity of approximately 5 MW (net) located in the Canchayllo district of Peru.

Also in Peru, through its subsidiary Generación Andina SAC ("GASAC"), the Company owns and operates two run-of-river hydroelectric projects, with expected capacity of approximately 8 MW (net) and 20 MW (net). Construction of these two hydroelectric facilities was completed in late 2019, with commercial operation dates ("COD") achieved on November 30, 2019 and December 25, 2019.

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 4, 2020.

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

Direct costs related to projects in development, including the fair value of assets under construction acquired in a business combination, are capitalized during the development stage as Construction in Progress provided that completion of the project is considered by management to be probable.

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 licenses, 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.

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.

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

Until December 31, 2018, the Company's accounting policy for leases considered the classification of leases or other arrangements entered into for the use of an asset 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.

On January 1, 2019, the Company adopted IFRS 16 – Leases, and therefore the updated accounting policy is described below:

The determination of whether an arrangement is, or contains, a lease is based on the substance of the agreement on the inception date.

As a lessee, the Company recognizes a lease obligation and a right-of-use asset in the consolidated statements of financial position on a present-value basis at the date when the leased asset is available for use. Each lease payment is apportioned between a finance charge and a reduction of the lease obligation. Finance charges are recognized in finance cost in the consolidated statements of earnings (loss). The right-of-use asset is included in property, plant and equipment and is depreciated over the shorter of the estimated useful life of the asset and the lease term on a straight-line basis.

Lease obligations are initially measured at the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.
- The lease payments are discounted using the interest rate implicit in the lease, or if this rate cannot be determined, the Company's incremental borrowing rate.
- Right-of-use assets are initially measured at cost comprising the following:
    - the amount of the initial measurement of the lease obligation;
    - any lease payments made at or before the commencement date less any lease incentives received;
    - any initial direct costs; and
    - rehabilitation costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the consolidated statements of earnings (loss). Short-term leases are leases with a lease term of 12 months or less at the inception of the lease. Low-value assets comprise primarily small equipment.

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. Management uses judgment in determining the point at which this has occurred which is generally when the asset reaches commercial operation at commissioning.

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 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.

In accordance with the transitional provisions in the standard, IFRS 16 was adopted retrospectively without restating comparatives with the cumulative impact adjusted in the opening balances as at January 1, 2019. The Company also utilized certain practical expedient elections whereby (i) there is no need to reassess whether an existing contract is a lease, or contains an embedded lease if previously determined under IAS 17, (ii) short term and low value leases are treated as previous operating leases, and (iii) the Company places reliance on previous assessments that there were no existing onerous lease contracts.

Management performed a detailed review of existing leases and other contractual arrangements and identified agreements that resulted in a "Right-of-use" asset of $1.0 million capitalized in the balance sheet and recognized in Property, Plant & Equipment with a corresponding lease liability recognized of $1.0 million.

(expressed in thousands of United States dollars unless otherwise noted)

The agreements identified relate to right to use land in Peru and other short-term non-cancelable operating leases for the Company's Toronto, Nicaragua and Peru corporate offices.

IFRIC 23 - Uncertainty over Income Tax Treatments

IFRIC 23 was issued in June 2017 and is effective for years beginning on or after January 1, 2019 and was adopted by the Company effective January 1, 2019, to be applied retrospectively. It provides guidance on applying the recognition and measurement requirements in IAS 12, Income Taxes, when there is uncertainty over income tax treatments including, but not limited to, whether uncertain tax treatments should be considered together or separately based on which approach better predicts resolution of the uncertainty. IFRIC 23 clarifies that an entity must consider the probability that the tax authorities will accept a treatment retained in its income tax filings, assuming that they have full knowledge of all relevant information when making their examination. In such a case, the income taxes shall be determined in line with the income tax filings. The Company has made an assessment and has determined that is it probable the tax authorities will accept the tax position, and therefore tax balances will be calculated under the existing accounting standard.

4. 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
Polaris Energy Group (Formerly Union Energy Group)	British Virgin Islands
Andean Power Generation Ltd.	British Virgin Islands
Andean Power Generation SAC.	Perú
CIA Energética del Norte SAC.	Perú
Empresa de Generación Eléctrica SAC. ("EGESAC")	Perú
Energía Renovable de Los Andes	Perú
Hydro Amazonas SAC	Perú
Hydro Energies Peru SA	Perú
Hydroelectrica Karpa SAC	Perú
Nueva Esperanza	Perú
Operacion y Mantenimiento Peru	Perú
Puglush Energia SAC	Perú
Peru Hydro & Light SAC	Perú
Generación Andina SAC ("GASAC")	Perú

The determination of the fair value of property, plant and equipment, intangible assets and contingent liabilities acquired was finalized on September 30, 2019 and resulted in adjustments made to the provisional fair values disclosed in the December 31, 2018 financial statements. These adjustments were recognized as of the acquisition date with the related tax affect, as follows:

(expressed in thousands of United States dollars unless otherwise noted)

	Provisional Allocation as at October 30, 2018	Purchase Accounting Adjustments	Final Allocation as at October 30, 2018
Cash	$ 137	$ -	$ 137
Accounts receivable	68	-	68
Prepaid expenses	53	-	53
Restricted Cash	9,323	-	9,323
Other assets, net	6,378	-	6,378
Construction in progress	41,253	(22,426)	18,827
Property, plant and equipment, net	7,591	(205)	7,386
Intangible assets, net	-	22,349	22,349
Deferred tax asset, net	4,694	(2,070)	2,624
Less:		-	
Accounts payable and accrued liabilities	(23,556)	280	(23,276)
Current portion of long-term debt, net	(657)	-	(657)
Long-term debt, net	(29,534)	7,108	(22,426)
Deferred tax liability, net	(510)	-	(510)
Net assets acquired	15,240	5,036	20,276
Consideration	(14,743)	-	(14,743)
Gain on bargain purchase	497	5,036	5,533

The fair values of the Canchayllo and Generación Andina power purchase agreements ("PPA") have been recognized as intangible assets, which are amortized over the 20-year life of the PPA. In addition, the assumptions used to determine discount rates used in the calculation of the fair value of the Canchayllo and Generación Andina projects were refined resulting in a post-tax weighted average cost of capital of 9.63% and 10.80%, respectively, and the fair values of the projects were adjusted accordingly. The effective interest rate for the Generación Andina project debt was increased to 8.35%, resulting in an adjustment to the provisional value of long-term debt acquired.

5. Revenue

In the years ended December 31, 2019 and 2018, $71.2 million and $68.8 million respectively, was earned from the sale of energy in Nicaragua and Peru. An additional $0.1 million and $nil, was earned from the sale of Carbon Credits by the Peruvian subsidiary in the years ended December 31, 2019 and 2018, respectively. Revenue by project is summarized in the following table:

.	Year Ended	
Project	**December 31, 2019**	**December 31, 2018**
Nicaragua		
San Jacinto (Geothermal)	$ 69,433	$ 68,551
Peru		
Canchayllo (Hydroelectric)	1,263	273
Generación Andina (Hydroelectric)	494	-
Carbon Credits - Canchayllo	61	-
	$ 71,251	$ 68,824

The Company's San Jacinto project sells energy to two Nicaraguan power distributors Distribuidora De Electricidad del Norte, S.A. ("Disnorte") and Distribuidora De Electricidad del Sur, S.A. ("Dissur").

For Peru, under the terms of the PPAs, 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 (Note 11).

(expressed in thousands of United States dollars unless otherwise noted)

The Company has determined that it has one performance obligation which is the delivery of electricity to its customers. There is no revenue recognized from unfulfilled performance obligations. Note 10 to these financial statements provides details on the Company's contract balances related to this revenue.

6. 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, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Revenue	$ 69,433	$ 68,551	$ 1,818	$ 273	$ -	$ -
Direct costs						
Other direct costs	(6,970)	(7,189)	(739)	(52)	-	-
Depreciation and amortization of plant assets	(22,999)	(22,798)	(415)	(59)	-	-
General and administrative expenses	(1,546)	(1,572)	(933)	(573)	(2,530)	(2,129)
Impairment loss	(11,564)	-	-	-	-	-
Other operating costs	1	42	-	-	(404)	(500)
Operating income	26,355	37,034	(269)	(411)	(2,934)	(2,629)
Interest income	664	496	1	1	397	1,084
Finance costs	(15,806)	(16,150)	(814)	(434)	(1,482)	(49)
Other gains (losses)	(354)	(618)	462	5,878	3,822	140
Earnings (loss) and comprehensive earnings (loss) before income taxes	10,859	20,762	(620)	5,034	(197)	(1,454)
Income tax expense	2,233	(7,865)	568	253	-	510
Total earnings and comprehensive earnings	$ 13,092	$ 12,897	$ (52)	$ 5,287	$ (197)	$ (944)
Total non-current assets	$ 306,400	$ 338,976	$ 106,201	$ 70,817	$ 2,461	$ 1,661
Total assets	345,384	382,531	107,308	72,203	11,052	10,818
Total liabilities	193,227	206,549	36,313	43,702	26,978	11,812

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

	Year Ended	
Revenue	December 31, 2019	December 31, 2018
Nicaragua	$ 69,433	$ 68,551
Peru	$ 1,819	$ 273
	$ 71,251	$ 68,824

(expressed in thousands of United States dollars unless otherwise noted)

Comprehensive earnings (loss) before income taxes	**Year Ended December 31, 2019**	**December 31, 2018**
Canada	$ (2,163)	$ (1,137)
United States	1,966	(317)
Nicaragua	10,859	20,762
Peru	(621)	5,034
	$ 10,041	$ 24,342

Assets and liabilities	**As at December 31, 2019**	**As at December 31, 2018**
Canada	$ 10,609	$ 10,518
United States	566	327
Nicaragua	345,261	382,502
Peru	107,308	72,203
Total assets	$ 463,744	$ 465,550
Canada	$ 1,903	$ 1,411
United States	558	248
Nicaragua	306,400	338,975
Peru	106,201	70,817
Total non-current assets	$ 415,062	$ 411,451
Canada	$ 26,058	$ 9,024
United States	920	2,786
Nicaragua	193,227	206,549
Peru	36,313	43,702
Total liabilities	$ 256,518	$ 262,061

7. 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, 2019	**December 31, 2018**
Depreciation and amortization	$ 23,414	$ 22,857
Employee costs	3,189	3,061
General liability insurance	1,125	719
Land, building and other Municipal and Federal Taxes	1,636	1,384
Maintenance	1,692	2,015
Other direct costs	67	62
	$ 31,123	$ 30,098

(b) General and administrative expenses

The Company's general and administrative expenses for the year ended December 31, 2019 and 2018 consisted of:

	Year Ended December 31, 2019	**December 31, 2018**
Salaries and benefits	$ 1,969	$ 1,578
Share-based compensation	389	(782)
Facilities and support	489	625
Professional fees	1,431	2,361
Insurance	391	417
Depreciation of other assets	199	15
Other general and administrative expenses	141	60
	$ 5,009	$ 4,274

Transaction costs related to the UEG acquisition of $nil and $1.6 million are included in professional fees, for the years ended December 31, 2019 and 2018, respectively.

(expressed in thousands of United States dollars unless otherwise noted)

8. Finance costs

The Company's finance costs for the year ended December 31, 2019 and 2018 consisted of:

	Year Ended December 31, 2019	Year Ended December 31, 2018
Interest on debt	$ 15,699	$ 14,487
Accretion on debt	1,106	1,407
Accretion of decommissioning liabilities	68	79
Banking fees and other finance costs	1,229	660
	$ 18,102	$ 16,633

Cash paid for interest and return enhancement during the year ended December 31, 2019 and 2018 was $13.9 million and $14.5 million, respectively.

9. Other (losses) and gains

The Company's other (losses) and gains for the years ended December 31, 2019 and 2018 consisted of:

	Year Ended December 31, 2019	Year Ended December 31, 2018
Foreign exchange losses	$ (1,019)	$ (755)
(Loss) Gain on valuation of warrant liabilities (Note 19)	(132)	144
(Loss) Gain on valuation of contingent liabilities (Note 4)	(409)	44
Loss on valuation of conversion option liability (Note 17)	2,670	-
Other gains (Note 4 and Note 18)	2,820	5,966
	$ 3,930	$ 5,399

Other gains, at December 31, 2019, include $2.3 million recognized from the reversal of decommissioning liabilities related to the Orita project, described in Note 18; whereas the December 31, 2018 balance includes the Gain on bargain purchase resulting from the acquisition of UEG, described in Note 4.

10. Accounts receivable

	December 31, 2019	December 31, 2018
Nicaragua		
San Jacinto (Geothermal)	$ 15,177	$ 15,092
Peru		
Canchayllo (Hydroelectric)	109	134
Generación Andina (Hydroelectric)	16	-
	$ 15,302	$ 15,226

The Company's accounts receivable as of December 31, 2019 and 2018 are mainly comprised of balances due to the Nicaraguan subsidiary by its customers, Disnorte and Dissur, which have 45 days term from invoice date.

For Peru, the Company has 30 days term from invoice date. The Company is paid the spot rate within 30 days of the invoice date for power generated from the Canchayllo and Generación Andina projects 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.

The Company assessed the risk of credit losses for its accounts receivable and concluded it is immaterial, therefore it has not recorded an allowance for doubtful amounts. Please refer to Note 25 (f) for details.

(expressed in thousands of United States dollars unless otherwise noted)

11. Other assets, net

The following is a summary of the Company's other assets, net as at:

	December 31, 2019	December 31, 2018
Financial assets		
Recoverable taxes	$ 5,400	$ 7,789
Debentures receivable	607	533
Investment in affiliate	169	161
Other deposits	87	54
Deferred transactions costs	273	-
Accrued revenue (note 5)	296	287
Non-financial assets		
Fixed assets, net	74	58
Right-of-use-asset, net	851	-
	$ 7,757	$ 8,882

As of December 31, 2019, Recoverable taxes include $4.2 million of VAT receivable (2018 - $7.4 million) from our Peruvian subsidiaries, which will be applied against VAT payable from the sale of power by our Generación Andina and Canchayllo projects. Right-of-use-asset includes $0.5 million for a right to use land agreement, and $0.5 million for lease of office space. Accrued revenue balance of $0.3 million for the years ended December 31, 2019 and 2018 relates to revenue from the sale of power by our Peruvian subsidiaries, discussed in Note 5.

As discussed in Note 3, on January 1, 2019 the Company adopted IFRS 16, which resulted in the recognition of Right-of-Use assets, for one easement agreement and three office space leases, which are amortized over the term of the corresponding leases:

	2019	2018
Balance at January 1, (inception date)	1,024	-
Additions/(disposals)	-	-
Amortization	(173)	-
Balance at December 31,	851	-

12. Restricted cash

	December 31, 2019	December 31, 2018
Casita exploitation application guarantee	$ -	$ 50
San Jacinto guarantees	1,080	1,080
Peru guarantees and bonds	4,495	7,112
Reclamation bonds - US and Canada	366	360
Other restricted cash	-	9
	$ 5,941	$ 8,611

In addition to the amounts recorded as restricted cash described above, cash in the amount of $23.1 million and $27.9 million held by the Company as at December 31, 2019 and 2018, respectively, is restricted for use in the San Jacinto project and governed by the terms of the Trust and the Credit Agreements, where the process to withdraw is considered perfunctory to the agreement, as long as the required covenants and balances are met. Therefore, as these amounts are demand deposits that are held for the purpose of meeting short-term cash commitments of the San Jacinto project, the Company considers them as available cash, since they are available for current use.

(expressed in thousands of United States dollars unless otherwise noted)

13. Construction in progress

The Company has the following properties under development.

	December 31, 2018	2019 Impairment	2019 Activity	2019 Transfers to PP&E	December 31, 2019
San Jacinto Binary Plant	1,160	$ -	$ -	$ -	$ 1,160
Generación Andina hydroelectric projects	22,845	-	40,098	(62,943)	-
Canchayllo improvements	24	-	1	-	25
Geothermal exploration and development					
San Jacinto Drilling Costs	186	-	696	(689)	193
Casita	11,556	(11,564)	8	-	-
	$ 35,771	$ (11,564)	$ 40,803	$ (63,632)	$ 1,378

	December 31, 2017	2018 Acquisitions	2018 Activity	2018 Transfers to PP&E	December 31, 2018
San Jacinto Binary Plant	$ 1,136	$ -	$ 24	$ -	$ 1,160
San Jacinto Major Maintenance	2	-	712	(714)	-
Generación Andina hydroelectric projects	-	18,828	4,017	-	22,845
Canchayllo improvements	-	-	24	-	24
Geothermal exploration and development					
San Jacinto Drilling Costs	14,641	-	4,045	(18,500)	186
Casita	11,543	-	13	-	11,556
	$ 27,322	$ 18,828	$ 8,835	$ (19,214)	$ 35,771

Amounts described under Generación Andina at December 31, 2018 related to contractor deposits required to commence construction of the projects, which was completed in December of 2019. The Generación Andina construction in progress balance was transferred to Property, Plant and Equipment after the Company obtained COD for the 8 de Agosto and El Carmen projects.

During the year ended December 31, 2019, the Company concluded it would not obtain financing for the Casita project and would not be pursuing future development in the near to medium term, therefore recognizing an impairment loss of $11.6 million

14. Property, plant and equipment, net

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

	December 31, 2018	2019 Activity	2019 Transfers from CIP	December 31, 2019
San Jacinto geothermal project	$ 518,730	$ 919	$ 689	$ 520,338
Canchayllo hydroelectric project	10,037	47	-	10,084
Generación Andina hydroelectric projects	-	-	62,943	62,943
Accumulated depreciation	(165,048)	(22,964)	-	(188,012)
Accumulated impairment	(38,940)	-	-	(38,940)
Capital spares	4,037	9	-	4,046
	$ 328,816	$ (21,989)	$ 63,632	$ 370,459

(expressed in thousands of United States dollars unless otherwise noted)

	December 31, 2017	2018 Acquisitions	2018 Activity	2018 Transfers from Geothermal Properties	December 31, 2018
San Jacinto geothermal project	$ 498,768	$ -	$ 748	$ 19,214	$ 518,730
Canchayllo hydroelectric project	-	10,037	-	-	10,037
Accumulated depreciation	(139,676)	(2,678)	(22,694)	-	(165,048)
Accumulated impairment	(38,940)	-	-	-	(38,940)
Capital spares	3,327	-	710	-	4,037
	$ 323,479	$ 7,359	$ (21,236)	$ 19,214	$ 328,816

PP&E assets currently in operation are being depreciated on a straight-line basis over the remaining term of their estimated useful lives, detailed below. Depreciation expense of $23.0 million and $22.7 for the years ended December 31, 2019 and 2018 respectively, was recorded in the consolidated statements of operations and comprehensive loss.

The useful lives of hydroelectric project property, plant and equipment assets currently in service are assigned by major asset categories summarized as follows:

- Facilities (Dam, Charging chamber, House machine and others) – 100 years
- Channel and driving tunnel – 50 years
- Turbines – 50 years
- Generators – 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

15. Intangible assets

	December 31, 2018	Accumulated Amortization	2019 Amortization	December 31, 2019
San Jacinto transmission assets	$ 5,682	$ (1,914)	$ (209)	$ 3,559
Canchayllo PPA	2,631	(27)	(163)	2,441
Generación Andina PPA	19,718	-	(40)	19,678
	$ 28,031	$ (1,941)	$ (412)	$ 25,678

	December 31, 2017	Accumulated Amortization	2019 Amortization	December 31, 2018
San Jacinto transmission assets	$ 5,682	$ (1,705)	$ (209)	$ 3,768
Canchayllo PPA	2,631	-	(27)	2,604
Generación Andina PPA	19,718	-	-	19,718
	$ 28,031	$ (1,705)	$ (236)	$ 26,090

Amortization expense related to the transmission assets for the San Jacinto project donated to the Nicaraguan utility, ENATREL in December 2011, was $0.2 million for the years ended December 31, 2019 and 2018 respectively. Amortization expense related to the Canchayllo PPA intangible asset for the years ended December 31, 2019 and 2018 was $0.2 million and $0.1 million, respectively.

16. Accounts payable and accrued liabilities

(expressed in thousands of United States dollars unless otherwise noted)

The following is a summary of the Company’s Accounts payable and accrued liabilities, as at:

	December 31, 2019	December 31, 2018
Trade payables	$ 1,431	$ 2,275
Construction payables	2,516	3,608
Construction accrued liabilities	9,597	16,353
Share-based compensation liability	1,409	1,153
Interest payable	415	471
Withholding tax and other tax payable	505	122
Other accrued liabilities	2,005	1,704
	$ 17,878	$ 25,686

17. Long-term debt, net

	Phase I Senior Debt	Phase I Subordinated Debt	Phase II Senior Debt	Phase II Subordinated Debt	Total Phase I and Phase II Debt	Canchayllo Debt	Generación Andina Debt	PIF Debenture	Total
Loans and other borrowings – December 31, 2018	$ 33,175	$ 12,495	$ 93,728	$ 17,478	$ 156,877	$ 5,020	$ 18,157	$ -	$ 180,053
Accrued interest expense	-	-	-	-	-	-	1,575	-	1,575
Proceed from debenture	-	-	-	-	-	-	-	13,677	13,677
Return enhancement	-	151	-	241	392	-	-	-	392
Accretion of deferred transaction costs and debt discount	414	-	692	-	1,106	-	-	1,398	2,504
Repayments of debt	(4,423)	(1,175)	(7,053)	(1,058)	(13,709)	(668)	-	(687)	(15,064)
Effect of foreign exchange on loans	-	-	-	-	-	-	-	534	534
Loans and other borrowings – December 31, 2019	$ 29,166	$ 11,471	$ 87,367	$ 16,661	$ 144,665	$ 4,352	$ 19,732	$ 14,922	$ 183,671
Current	$ 5,406	$ 1,321	$ 8,336	$ 1,140	$ 16,203	$ 714	$ -	$ -	$ 16,917
Non-current	23,760	10,150	79,031	15,521	128,462	3,637	19,732	14,922	166,754
Unamortized debt discount/return enhancement	979	(1,781)	3,197	(2,088)	307	-	24,235	4,330	28,872
Principal balance	$ 30,145	$ 9,690	$ 90,564	$ 14,573	$ 144,972	$ 4,352	$ 43,967	$ 19,252	$ 212,543
Maturity date	12/15/2024	12/15/2025	12/15/2028	6/15/2029		3/31/2025	6/15/2038	5/31/2024	

	Year Ended December 31, 2019	December 31, 2018
Phase I Facility		
Interest recorded as financing cost	$ 4,149	$ 4,447
Accretion recorded as financing cost	414	459
Phase II Facility		
Interest recorded as financing cost	9,673	9,898
Accretion recorded as financing cost	692	739
Canchayllo Debt		
Interest recorded as financing cost	457	78
Generación Andina Debt		
Accretion recorded as financing cost	-	209
Debentures		
Interest recorded as financing cost	1,398	-
Other		
Interest recorded as financing cost	-	64
Total		
Interest recorded as financing cost	$ 15,677	$ 14,487
Accretion recorded as financing cost	1,106	1,407

(a) Credit agreements

Summary of Phase I and Phase II Credit Agreements

As at December 31, 2019 and 2018, interest rates on the Phase I and Phase II senior facilities were LIBOR + 5.5%, resulting in 7.39% and 8.29% of interest, respectively. Interest on Phase I and Phase II Subordinated Debt is fixed at 6% annually, respectively.

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, 2019, interest rates on the Canchayllo credit facility ranged from 7.38% 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 5.00%. 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 Generación Andina Credit Agreement

As at December 31, 2019, the Generación 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 six 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. As per the agreement, GA also must pay the lenders 50% of all net transmission line revenues received in the preceding 6 months from use of transmission line by third parties. As of December 31, 2019, no agreements with third parties to use GA's transmission line have been signed.

The Company recorded the loan at its fair value using a market rate of interest and recognized a debt discount in the amount of $19.0 million as at October 30, 2018, which is accreted over the term of the loan. As of December 31, 2019, interest in the amount of $1.6 million was capitalized in connection with the GA loan (2018 - $nil).

Summary of Debentures

On May 28, 2019, the Company issued a total of 25,000 senior unsecured convertible debentures (the "Debentures") at a price of C$1,000 per Debenture convertible into common shares at a conversion price per common share equal to C$15.00, bearing an interest rate of 7.00% per annum, payable semi-annually in arrears on each May 31 and November 30, maturing 60 months following the closing date (May 31, 2024).

The Company has the option to satisfy its obligations to pay on redemption or maturity, the principal amount on the Debentures, in whole or in part, by delivering shares of the Company. Any accrued and unpaid interest will be paid in cash. The Debentures are redeemable after May 31, 2022 and prior to May 31, 2023, in whole or in part at the Company's option at par plus accrued interest and unpaid interest, provided the weighted average trading price of the Common Shares on the Toronto Stock Exchange during the 20 consecutive trading days ending on the fifth trading day preceding the date on which of redemption is given is not less than 125% of the conversion price.

The net proceeds were used for general corporate purposes and to provide the flexibility to pursue further corporate development opportunities in Peru and similar jurisdictions in Latin America.

(expressed in thousands of United States dollars unless otherwise noted)

Fair value of the equity conversion component was determined using a Black Scholes valuation model, which resulted in a fair value per option of C$3.37. The Company issued 1,666,667 conversion options with a total value of $4,2 million less transaction costs of $0.2 million, resulting in a fair value of the equity conversion option liability of $4.0 million at issuance. Transaction costs that relate to the issue of a compound financial instrument are allocated to the components in proportion to the allocation of proceeds. The fair value of the debentures conversion option liability as of December 31, 2019 was $1.3 million and a gain on valuation of $2.7 million was recognized in Other (losses) gains in the statement of operations for the year ended December 31, 2019.

The fair value of the debentures was calculated as the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied by the market to a similar instrument without the conversion option (IAS 32.AG31). The total consideration received of $18.6 million, less the fair value of the conversion option of $4.2 million, less transaction costs of $0.7 million, resulted in a fair value of the debenture liability of $13.7 million at issuance.

18. Decommissioning liabilities

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

	South Meager	Orita	Sierra	Total
December 31, 2018	$ 1,251	$ 1,901	$ 853	$ 4,005
Revision in estimate	8	41	19	68
Accretion	20	31	17	68
Transferred in sale	$ -	$ (1,973)	$ -	$ (1,973)
December 31, 2019	$ 1,279	$ -	$ 889	$ 2,168

On November 1, 2019, the Company entered into an agreement with a third party to sell the right, title and interest in the Orita project, including the geothermal leases for a purchase price of $0.3 million plus interest. The Orita project had no carrying value and only the decommissioning liability of approximately $2.0 million, which was reversed as of December 31, 2019.

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, 2019	December 31, 2018
South Meager	1,323	1.58%	1.86%
Orita	2,046	1.63%	2.46%
Sierra	1,123	1.63%	2.46%

19. Contingent liabilities

The contingent consideration to be issued to former Shareholder Lenders of the UEG subsidiaries upon COD of the 8 de Agosto and El Carmen projects (see Note 4) is recorded as a contingent liability and revalued each period, with changes recognized in the statement of comprehensive earnings. As at December 31, 2019, the total value of this consideration is $6.6 million (2018 - $6.2 million), assuming the projects achieve commercial operation within two years after the acquisition date.

(expressed in thousands of United States dollars unless otherwise noted)

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 January 1, 2018	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	-	-	-	-	1,200,000
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	2,132,405
Stock options exercised	24,000	24,000	(24,000)	-	-	-
Stock options forfeited or expired	-	-	(131,722)	-	-	-
Stock options vested	-	-	252,543	-	-	-
RSU shares issued	-	4,000	-	-	-	-
Balance at December 31, 2019	16,306,299	15,706,299	363,386	300,000	155,132	2,132,405

(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
(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
(17)	Issued September 9, 2019	18,000	September 9, 2019	September 9, 2024	$ 13.50	$ 1.00

(expressed in thousands of United States dollars unless otherwise noted)

Stock options granted during the year ended December 31, 2019 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
(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%
(17)	September 9, 2019	$ 13.50	$ 13.50	40%	4.00	1.37%	4.44%	0%

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, 2019 and 2018, 252,543 and 77,043 stock options vested, respectively. The following table reconciles stock options outstanding as at December 31, 2019 and 2018:

	For the Year Ended December 31, 2019	Weighted Average Exercise Price (CDN)	For the Year Ended December 31, 2018	Weighted Average Exercise Price (CDN)
Balance at beginning of year	738,108	$ 15.66	678,108	$ 16.16
Granted during the period	18,000	13.50	60,000	9.93
Exercised during the period	(24,000)	10.00	-	-
Forfeited during the period	(131,722)	16.34	-	-
Expired during the period	-	-	-	-
Balance at end of year	600,386	$ 15.66	738,108	$ 15.65

The following table summarizes the information related to stock options outstanding as at December 31, 2019:

	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	600,386	2.9	$ 15.66	363,386	$ 15.36
	600,386	2.9	$ 15.66	363,386	$ 15.36

For the years ended December 31, 2019 and 2018, the Company recognized shared-based compensation expense associated with options, with a corresponding increase in contributed surplus, of $0.1 million and $0.4 million, respectively.

(expressed in thousands of United States dollars unless otherwise noted)

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 Exchange Rate	Total Fair Value at Grant Date (USD)	Vesting Schedule
5/15/2015	6/30/2018	12,000	$ 10.00	$ 120	0.8326	$ 100	1/3 vest 6/30/2016, 1/3 vest 6/30/2017, 1/3 vest 6/30/2018
5/13/2015	5/13/2019	310,263	10.00	3,103	0.8368	2,596	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		$ 3,223		$ 2,696	

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 an increase to share-based compensation expense associated with RSUs of $0.4 million in the year ended December 31, 2019 and a decrease to share-based compensation expense associated with RSUs of $0.9 million for the year ended December 31, 2018. 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$0.1 million 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 $0.1 million (CDN$0.1 million 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. During the year ended December 31, 2019 the DSUs expired.

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, which as of December 31, 2019 has not been received. 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 of the warrants as of December 31, 2019 was $0.3 million (2018 - $0.1 million) and was recorded as a warrant liability, which will be revalued each reporting period.

(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

(expressed in thousands of United States dollars unless otherwise noted)

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

	Year Ended December 31, 2019	Year Ended December 31, 2018
Total earnings (loss) and comprehensive earnings (loss) attributable to owners of the Company	$ 14,496	$ 17,177
Basic weighted average number of shares outstanding	15,704,261	15,678,514
Basic earnings (loss) per share	$ 0.92	$ 1.10

	Year Ended December 31, 2019	Year Ended December 31, 2018
Total earnings (loss) and comprehensive earnings (loss) attributable to owners of the Company	$ 14,496	$ 17,177
Diluted weighted average number of shares outstanding	16,304,261	16,511,338
Diluted earnings (loss) per share	$ 0.89	$ 1.04

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

	Year Ended December 31, 2019	Year Ended December 31, 2018
Stock options - 9/9/2019 grant date	18,000	-
Stock options - 12/20/2017 grant date	410,000	510,000
Stock options - 12/2/2016 grant date	112,386	-
Deferred stock units	-	-
Total anti-dilutive instruments	540,386	510,000

(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, 2019 and 2018 were $0.01 million and ($0.01) million, 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, 2019	Year Ended December 31, 2018
Short-term employee benefits	$ 831	$ 948
Share-based payment	105	240
Total key management compensation	$ 936	$ 1,188

22. Commitments

The Company enters into agreements for geothermal concessions, which minimum annual payment requirements are summarized as follows:

	December 31, 2019	December 31, 2018
No later than one year	$ -	$ 30
For years 2 - 5	315	120
Thereafter	727	300
Total commitments for expenditures	$ 1,042	$ 450

(expressed in thousands of United States dollars unless otherwise noted)

23. Leases

As noted in Note 3, the Company adopted IFRS 16 Leases on January 1, 2019. On adoption of IFRS 16, the Company recognized a "Right-of-Use" asset and the corresponding lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the individual lease, if the rate could be readily determined, or the Company's incremental borrowing rates, if the rate could not be readily determined, as of January 1, 2019. The discount rates applied to the lease liability on January 1, 2019 ranged between 6.70% and 8.32%.

The finance cost or amortization of the discount on the lease liability is charged to the Consolidated Statements of Profit and Comprehensive Profit using the effective interest method.

The following table is a summary of the carrying amounts of the Company's lease liabilities measured at the present value of the remaining lease payments that are recognized in the Consolidated Statements of Financial Position as of:

	2019	**2018**
Balance at January 1, (inception date)	1,024	-
Lease payments	(177)	-
Amortization of discount	34	-
Balance at December 31,	881	-

Lease liabilities are now included within current and long-term liabilities in the Consolidated Statements of Financial Position.

	2019	**2018**
Lease obligation, Current	252	-
Lease obligation, Long-term	629	-
Balance at December 31,	881	-

24. Income taxes

(a) Income tax expense

The Company has recorded the following deferred tax expense / (recovery) for the years ended December 31, 2019 and 2018

	December 31, 2019	December 31, 2018
Current tax expense		
Current period	$ -	$ -
Deferred tax expense		
Origination and reversal of temporary differences	7,800	13,426
Change in tax rates and rate differences	84	171
Change in unrecognized deductible temporary differences	(10,909)	(6,495)
Other	224	-
Total income tax (recovery) expense from continuing operations	$ (2,801)	$ 7,102

(expressed in thousands of United States dollars unless otherwise noted)

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, 2019	December 31, 2018
Income before tax	$ 9,818	$ 24,340
Statutory income tax rate	26.50 %	26.50 %
Expected income tax	2,602	6,450
Increase (decrease) resulting from:		
Non-taxable items	(4,622)	(3,194)
Change in unrecognized deferred tax assets	(10,909)	(6,495)
Change in tax rates and rate differences	84	171
Effect of tax rate in foreign jurisdictions	(960)	(810)
Expiration of tax attributes	7,432	6,683
Foreign exchange differences	2,661	4,063
Non-controlling interest	-	-
Other	687	236
Prior period adjustments	224	(2)
Income tax (recovery) expense	$ (2,801)	$ 7,102

(b) Recognized deferred tax assets and liabilities

Deferred tax assets are attributable to the following:

	December 31, 2019	December 31, 2018
Property, plant and equipment	$ 13,133	$ 12,931
Deferred charges	11,585	-
Contingent liabilities	872	818
Lease obligation	167	-
Capital losses	280	361
Non-capital losses	2,474	4,004
Deferred tax assets	28,511	18,114
Set off of tax	(24,661)	(14,832)
Net deferred tax assets	$ 3,850	$ 3,282

Deferred tax liabilities are attributable to the following:

	December 31, 2019	December 31, 2018
Property, plant and equipment	$ (52,796)	$ (46,002)
Intangibles	(6,008)	(6,573)
Investment in Polaris Energy Peru Corp.	(1,152)	(1,178)
Long-term debt	(8,474)	(7,599)
Deferred tax liabilities	(68,430)	(61,352)
Set off of tax	24,661	15,351
Net deferred tax liabilities	$ (43,769)	$ (46,001)

(c) Unrecognized deferred tax assets

The tax losses expire between 2020 and 2039. Additional deferred tax assets were recognized at December 31, 2019 because the Company believes that it is probable that its Nicaraguan subsidiary will generate taxable profit subsequent to the expiry of the tax holiday, as further described below, that will allow for the realization of these deferred tax assets.

(expressed in thousands of United States dollars unless otherwise noted)

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, 2019		December 31, 2018
Deductible temporary differences	$	51,543	$	95,004
Tax losses		307,129		263,675
	$	358,672	$	358,679

The Company expects to utilize only a portion of the net operating losses carried forward in Nicaragua, with a total of $36.3 million of net operating losses carried forward as at December 31, 2019 (December 31, 2018 - $44.0 million) not utilized because the Company's subsidiary in Nicaragua is currently not subject to income taxes. Under the tax laws related to the commercial production of electricity from renewable resources, the Nicaraguan subsidiary was granted a tax-free holiday for a period of 10 years, which ends in 2022 and 2023.

25. Financial instruments and risk management

(a) Fair value of financial assets and liabilities

IFRS requires disclosure about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The following are the three levels of the fair value hierarchy:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices that are directly or indirectly observable for the asset or liability
- Level 3 – Inputs that are not based on observable market data

As at December 31, 2019 and 2018, respectively, the carrying amounts of accounts receivable, restricted cash, accounts payable and accrued liabilities, and current portion of long-term debt are measured at fair value or approximate fair value due to the short term to maturity, and therefore classified as Level 1.

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 Generación Andina projects were recorded at fair value on the acquisition date using a discounted cash flow analysis.

All the assets and liabilities that the Company has identified as financial assets and financial liabilities are measured at fair value through the Statement of Profit or amortized costs under IFRS Financial Instruments. The Company currently has no financial assets and financial liabilities to be measured at fair value through the Statement of Comprehensive Income.

(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 5.50% with quarterly interest payments that are variable based upon 3-month LIBOR. The total rate as at December 31, 2019 was 7.39%. 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 $0.1 million in financing costs for the year ended December 31, 2019.

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 5.00% with quarter interest payments that are variable based upon 3-month LIBOR. The total rate as at December 31, 2019 was 7.38%. The Company determined that a hypothetical 10 basis point increase in the 3-month LIBOR would result in an increase of $0.01 million in financing costs for the year ended December 31, 2019.

(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. Further, the Company translates significant amounts received in local currency to US dollars immediately. As at December 31, 2019 and 2018, the Company had cash, accounts payable and long-term debt in of CDN$(23,451,169) million and CDN$(1,328,117), respectively. As at December 31, 2019, the Company had cash, accounts receivable, prepaid contractor advances and accounts payable of Sol$3,146,367 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 $1.8 million and $0.1 million for the year ended December 31, 2019 and 2018, 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 $0.1 million for the years ended December 31, 2019 and 2018, respectively. The Company does not enter into any foreign exchange contracts to mitigate this risk.

(e) Commodity prices

The Company's commodities consist of power produced and carbon emission reduction credits ("CERs") earned. The Company is not exposed to commodity price risk with respect to the power it produces as all power currently produced is sold under the terms of a power purchase agreement ("PPA") which establishes a fixed price and escalator.

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

(f) Credit risk

The Company is exposed to credit risk with respect to amounts receivable from its customers. Credit risk is the potential loss from the customer failing to perform payment of the amount receivable, defined in the invoice. The Company manages credit risk with policies and procedures for customer analysis, exposure measurement, and exposure monitoring and mitigation.

The Company considers that "default" occurs when the account receivable balance is 90 days past due, from the date of payment stated in the invoice.

Once a balance receivable has been identified as in default, the Company assesses the alternatives to recover such balances, with reasonable effort. If the Company concludes the balances cannot be recovered, the amounts are then written-off.

In estimating expected credit losses on trade receivables, the Company has estimated the probability of default is 0.1% based on the Company's historical default rates, as the Company does not expect these rates to significantly increase in the future. Historically, the Company has not suffered losses for balances identified as in default and does not expect to incur significant losses in the future due to the nature of its customers (distribution utilities). The Company applies the simplified approach to assess expected credit losses for trade receivables, whereby the loss allowance for the account receivable is measured at an amount equal to the lifetime expected credit losses. The Company shall recognize in the statements of earnings, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(expressed in thousands of United States dollars unless otherwise noted)

From the credit risk assessment performed during the year, the Company has concluded that exposure to credit risk related to the amounts receivable from customers is not material, as of December 31, 2019.

The Company is also exposed to credit risk with respect to its amounts of cash and cash equivalents. The Company deposits its cash with reputable financial institutions, mostly based in North America, for which management believes the risk of loss to be remote.

(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, 2019:

	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years	Total
Accounts payable and accrued liabilities	$ 17,878	$ -	$ -	$ -	$ 17,878
Debt, current and long-term	17,917	43,588	63,843	87,195	212,543
Interest obligations	10,080	16,334	10,492	7,460	44,366
	$ 45,875	$ 59,922	$ 74,335	$ 94,655	$ 274,787

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	$ -	$ -	$ -	$ 25,965
Debt, current and long-term	14,377	38,748	47,441	107,102	207,668
Interest obligations	12,237	20,930	14,853	13,172	61,192
	$ 52,579	$ 59,678	$ 62,294	$ 120,274	$ 294,825

Interest on the San Jacinto project credit facilities is due and payable quarterly and is currently estimated to be approximately $3.0 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 17). These externally-imposed capital requirements will affect the Company's approach to capital management. The Company's externally-imposed capital requirements include maintaining minimum debt service coverage and solvency ratios for PENSA, SJPIC and EGECSAC and restrictions on the use of revenue from all projects.