

Condensed Consolidated Interim Financial Statements of

Polaris Infrastructure Inc.

June 30, 2021 and 2020

(Unaudited)

Consolidated Balance Sheets	1
Consolidated Statements of Operations and Comprehensive Earnings.....	2
Consolidated Statements of Changes in Total Equity.....	3
Consolidated Statements of Cash Flows	4
Notes to the Consolidated Financial Statements	5-15

Polaris Infrastructure Inc.

Consolidated Balance Sheets

(expressed in thousands of United States dollars; unaudited)

	Note Ref	As at June 30, 2021	As at December 31, 2020
Assets			
Current assets			
Cash		\$ 104,690	\$ 60,058
Accounts receivable	9	9,020	19,389
Prepaid expenses		960	739
Assets held for sale	8	-	158
		114,670	80,344
Restricted cash		1,780	1,785
Other assets, net		9,670	8,970
Construction in progress	10	1,318	1,151
Property, plant and equipment, net	11	360,786	372,762
Intangible assets, net		23,934	24,325
Deferred tax asset, net		1,277	1,781
Total assets		\$ 513,435	\$ 491,118
Liabilities and Total Equity			
Current liabilities			
Accounts payable and accrued liabilities		10,237	\$ 12,501
Current portion of long-term debt, net	12	21,001	21,065
Current portion of lease liabilities		181	187
Deferred revenue		100	-
Liabilities held for sale	8	-	1,288
		31,519	\$ 35,041
Non-current liabilities			
Long-term debt, net	12	156,203	168,230
Conversion option liability	12	7,100	7,868
Lease liabilities		616	503
Decommissioning liabilities		917	898
Deferred tax liability, net		53,313	51,809
Total liabilities		249,668	\$ 264,349
Non-controlling interests		(1,976)	(1,976)
Equity attributable to the owners of the Company			
Share capital	13	647,523	598,982
Contributed surplus		14,232	19,716
Accumulated deficit		(396,012)	(389,953)
Total equity attributable to the owners of the Company		265,743	228,745
Total equity		263,767	\$ 226,769
Total liabilities and total equity		\$ 513,435	\$ 491,118

The accompanying notes are an integral part of these condensed consolidated interim 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, except for shares and per share amounts; unaudited)

	Note	Three Months Ended		Six Months Ended	
		June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Revenue	3	\$ 14,161	\$ 18,923	\$ 29,840	\$ 39,195
Direct costs					
Direct costs	5	(2,644)	(2,681)	(5,224)	(4,611)
Depreciation and amortization of plant assets	5	(6,467)	(6,380)	(13,285)	(12,807)
General and administrative expenses	5	(1,589)	(1,611)	(3,394)	(2,761)
Other operating costs		(18)	(42)	(15)	(116)
Operating income		3,443	8,209	7,922	18,900
Interest income		39	21	112	150
Finance costs	6	(4,344)	(4,414)	(8,672)	(9,119)
Other (losses) gains	7	1,770	(3,270)	1,890	(2,733)
Earnings and comprehensive earnings before income taxes		908	546	1,252	7,198
Income tax expense		(749)	(1,571)	(2,005)	(3,832)
Total earnings and comprehensive earnings		\$ 159	\$ (1,025)	(753) \$	3,366
Total earnings and comprehensive earnings attributable to:					
Owners of the Company		\$ 159	(1,025) \$	(753) \$	3,335
Non-controlling interests		\$ -	- \$	- \$	31
Basic earnings per share	14	\$ 0.01	(0.07) \$	(0.04) \$	0.21
Diluted earnings per share	14	\$ 0.01	(0.07) \$	(0.04) \$	0.20

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

Polaris Infrastructure Inc.

Consolidated Statements of Changes in Total Equity

(expressed in thousands of United States dollars, except for share information; unaudited)

	Note Ref	Common Stock		Contributed Surplus	Accumulated Deficit	Total Attributable to the Owners of the Company	Non-Controlling Interests	Total Equity
		Shares	Amount					
Balance at January 1, 2020		15,706,299	598,982	19,623	(409,372)	209,233	(2,007)	207,226
Share-based compensation		-	-	38	-	38	-	38
Dividends paid		-	-	-	(4,711)	(4,711)	-	(4,711)
Acquisition shares to be issued		-	-	-	-	-	-	-
Total earnings and comprehensive earnings		-	-	-	3,290	3,290	31	3,321
Balance at June 30, 2020		15,706,299	598,982	19,661	(410,793)	207,850	(1,976)	205,874
Share-based compensation	13	-	-	55	-	55	-	55
Dividends paid		-	-	-	(4,712)	(4,712)	-	(4,712)
Total earnings and comprehensive earnings		-	-	-	25,552	25,552	-	25,552
Balance at December 31, 2020		15,706,299	598,982	19,716	(389,953)	228,745	(1,976)	226,769
Share-based compensation	13	-	-	9	-	9	-	9
Dividends paid		-	-	-	(5,306)	(5,306)	-	(5,306)
Shares issued		3,715,754	48,541	(5,493)	-	43,048	-	43,048
Total earnings and comprehensive earnings		-	-	-	(753)	(753)	-	(753)
Balance at June 30, 2021		19,422,053	\$ 647,523	\$ 14,232	\$ (396,012)	\$ 265,743	\$ (1,976)	\$ 263,767

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

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

	Six Months Ended	
	June 30, 2021	June 30, 2020
Net inflow (outflow) of cash related to the following activities		
Operating		
Total earnings (loss) and comprehensive earnings (loss) attributable to owners of the Company	\$ (753)	\$ 3,335
Add/(Deduct) items not affecting cash:		
Non-controlling interests in net loss of subsidiary	-	31
Deferred income tax expense	2,005	3,832
Finance costs recognized	7,617	7,892
Depreciation and amortization	13,381	12,938
Accretion of decommissioning liability	13	11
Change in decommissioning liabilities	6	41
Gain on sale of assets	(1,447)	-
Gain on valuation of warrant liabilities	-	367
Gain on valuation of contingent liabilities	-	(416)
Loss on valuation of conversion option liability	(768)	3,272
Accretion on debt	1,765	549
Share-based compensation	510	234
Unrealized foreign exchange loss	147	(826)
Changes in non-cash working capital:		
Accounts receivable	10,369	(2,553)
Prepaid expenses and other assets	(490)	(2,949)
Accounts payable and accrued liabilities	(2,114)	(1,082)
Interest and return enhancement paid	(5,540)	(5,810)
Additions to other assets	(549)	(450)
Net cash flow from operating activities	24,152	18,416
Investing		
Change in restricted cash	5	4,020
Additions to construction in progress	(1,285)	(5,583)
Proceeds on disposition of asset	317	-
Additions to property, plant and equipment	(530)	(914)
Net cash flow to investing activities	(1,493)	(2,477)
Financing		
Proceeds from share issuance	38,205	-
Dividends paid	(5,306)	(4,756)
Proceeds from debt issuance (Note 12)	-	17,646
Repayment of debt	(11,027)	(13,096)
Accretion of lease payments	107	(84)
Net cash flow to financing activities	21,979	(290)
Foreign exchange loss on cash held in foreign currency	(6)	(4)
Net increase (decrease) in cash	44,632	15,645
Cash, beginning of the period	60,058	32,597
Cash, end of the period	\$ 104,690	\$ 48,242

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

Polaris Infrastructure Inc.

Notes to the Consolidated Financial Statements

June 30, 2021 and 2020

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

1. Organization

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

The Company is engaged in the acquisition, exploration, development and operation of geothermal 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 the Nicaraguan Ministry of Energy and Mines to develop and operate the San Jacinto Project.

Through its subsidiary Empresa de Generación Eléctrica 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 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 Preparation and Presentation

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the IASB, have been omitted or condensed. Accordingly, the interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2020.

The accounting policies applied in the preparation of these condensed consolidated interim financial statements are consistent with those applied and disclosed in the Company’s consolidated financial statements for the year ended December 31, 2020. In particular, the Company’s significant accounting policies were presented in *Note 3: Significant Accounting Policies* to the consolidated financial statements for the year ended December 31, 2020.

In preparing these condensed consolidated interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates. The critical judgements made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those applied and disclosed in *Note 4: Critical Judgements and Estimation Uncertainties* to the Company’s consolidated financial statements for the year ended December 31, 2020. Sources of estimation uncertainty include estimates to determine the recoverable amount of property, plant and equipment, construction in progress and the valuation of other assets and liabilities including environmental rehabilitation provisions.

In these condensed consolidated interim financial statements, unless otherwise indicated, all dollar amounts are expressed in United States (“US”) dollars, the Company’s functional and reporting currency.

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors of the Company (the “Board”) on August 5, 2021.

New and Revised IFRSs not yet Effective

Certain pronouncements have been issued by the IASB that are mandatory for accounting periods after December 31, 2020. Such pronouncements are not expected to have a significant impact on the Company’s consolidated financial statements upon adoption.

Polaris Infrastructure Inc.

Notes to the Consolidated Financial Statements

June 30, 2021 and 2020

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

3. Revenue

Revenue by type is summarized in the following table:

Project	Three Months Ended		Six Months Ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Nicaragua (i)				
San Jacinto (Geothermal)	\$ 12,437	\$ 17,462	\$ 25,765	\$ 35,600
Peru (ii)				
Canchayllo (Hydroelectric)	258	282	511	665
Generación Andina (Hydroelectric)	1,454	1,165	3,542	2,903
Carbon Credits - Canchayllo	12	14	22	27
	\$ 14,161	\$ 18,923	\$ 29,840	\$ 39,195

(i) 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. ("Disur").

(ii) 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 (plus an effective annual interest rate of 12%) is calculated annually each May for the previous 12 months and is paid evenly over the following 12 months. The Company recognizes revenue at the PPA rate and records the accrued revenue in connection with the difference between the PPA rate and the spot rate in Other Assets.

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

4. 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 represents expenses, assets and liabilities for Canada and the United States, not related to the Company's reportable operating segments. These represent corporate headquarters and other minor North America holdings, which are not

Polaris Infrastructure Inc.

Notes to the Consolidated Financial Statements

June 30, 2021 and 2020

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

considered individually as 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.

For the Three Months Ended June 30,	Nicaragua		Peru		Other		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
Revenue	\$ 12,437	\$ 17,462	\$ 1,724	\$ 1,461	\$ -	\$ -	\$ 14,161	\$ 18,923
Direct costs								
Direct costs	(1,762)	(1,554)	(882)	(1,127)	-	-	(2,644)	(2,681)
Depreciation and amortization of plant assets	(5,950)	(5,575)	(517)	(805)	-	-	(6,467)	(6,380)
General and administrative expenses	(390)	(378)	(140)	(251)	(1,059)	(982)	(1,589)	(1,611)
Other operating costs	—	—	-	-	(18)	(42)	(18)	(42)
Operating income	4,335	9,955	185	(722)	(1,077)	(1,024)	3,443	8,209
Interest income	9	6	-	(1)	30	16	39	21
Finance costs	(2,568)	(3,102)	(1,262)	(781)	(514)	(531)	(4,344)	(4,414)
Other (losses) gains	(27)	(69)	(224)	549	2,021	(3,750)	1,770	(3,270)
Earnings (loss) and comprehensive earnings (loss) before income taxes	1,749	6,790	(1,301)	(955)	460	(5,289)	908	546
Income tax (expense) recovery	(750)	(1,076)	1	(495)	-	-	(749)	(1,571)
Total earnings and comprehensive earnings	\$ 999	\$ 5,714	\$ (1,300)	\$ (1,450)	\$ 460	\$ (5,289)	\$ 159	\$ (1,025)

For the Six Months Ended June 30,	Nicaragua		Peru		Other		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
Revenue	\$ 25,765	\$ 35,600	\$ 4,075	\$ 3,595	\$ -	\$ -	\$ 29,840	\$ 39,195
Direct costs								
Direct costs	(3,498)	(3,117)	(1,726)	(1,494)	-	-	(5,224)	(4,611)
Depreciation and amortization of plant assets	(11,963)	(11,206)	(1,322)	(1,601)	-	-	(13,285)	(12,807)
General and administrative expenses	(794)	(780)	(298)	(541)	(2,302)	(1,440)	(3,394)	(2,761)
Other operating costs	-	-	-	-	(15)	(116)	(15)	(116)
Operating income	9,510	20,497	729	(41)	(2,317)	(1,556)	7,922	18,900
Interest income	26	91	—	—	86	59	112	150
Finance costs	(5,186)	(6,688)	(2,451)	(1,365)	(1,035)	(1,066)	(8,672)	(9,119)
Other (losses) gains	(80)	(98)	(362)	480	2,332	(3,115)	1,890	(2,733)
Earnings (loss) and comprehensive earnings (loss) before income taxes	4,270	13,802	(2,084)	(926)	(934)	(5,678)	1,252	7,198
Income tax (expense) recovery	(1,506)	(3,303)	(499)	(529)	-	-	(2,005)	(3,832)
Total earnings and comprehensive earnings	\$ 2,764	\$ 10,499	\$ (2,583)	\$ (1,455)	\$ (934)	\$ (5,678)	\$ (753)	\$ 3,366

Polaris Infrastructure Inc.

Notes to the Consolidated Financial Statements

June 30, 2021 and 2020

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

Assets and liabilities	As at	
	June 30, 2021	December 31, 2020
Other	\$ 69,778	\$ 28,609
Nicaragua	340,248	358,070
Peru	103,409	104,439
Total assets	\$ 513,435	\$ 491,118
Other	\$ 1,949	\$ 1,637
Nicaragua	298,071	308,818
Peru	98,745	100,319
Total non-current assets	\$ 398,765	\$ 410,774
Other	22,045	28,440
Nicaragua	177,228	184,837
Peru	50,395	51,072
Total liabilities	\$ 249,668	\$ 264,349

5. General and Administrative and Other Expenses

(a) Direct costs related to the production of energy:

	Three Months Ended		Six Months Ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Depreciation and amortization	\$ 6,467	\$ 6,380	\$ 13,285	\$ 12,807
Employee costs	763	713	1,527	1,444
General liability insurance	586	460	1,119	876
Land, building and other Municipal and Federal Taxes	500	335	1,007	659
Maintenance	638	867	1,246	1,275
Other direct costs	157	306	325	357
	\$ 9,111	\$ 9,061	\$ 18,509	\$ 17,418

(b) General and administrative expenses

	Three Months Ended		Six Months Ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Salaries and benefits	\$ 847	\$ 581	\$ 1,417	\$ 1,191
Share-based compensation	16	439	512	253
Facilities and support	115	44	227	225
Professional fees	485	376	994	754
Insurance	69	102	133	210
Depreciation of other assets	55	65	106	119
Other general and administrative expenses	2	4	5	9
	1,589	1,611	3,394	2,761

6. Finance Costs

	Three Months Ended		Six Months Ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Interest on debt (i)	\$ 3,775	\$ 3,813	\$ 7,617	\$ 7,892
Accretion on debt	365	288	738	549
Banking fees and other finance costs	203	312	317	678
	\$ 4,344	\$ 4,414	\$ 8,672	\$ 9,119

(i) Cash paid for interest and return enhancement during the six-month period ended June 30, 2021 and 2020 was \$5.5 million and \$5.8 million, respectively.

Polaris Infrastructure Inc.

Notes to the Consolidated Financial Statements

June 30, 2021 and 2020

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

7. Other Gains and Losses

	Three Months Ended		Six Months Ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Foreign exchange losses	\$ (238)	\$ (531)	\$ 83	\$ 553
Loss on valuation of warrant liabilities	-	(437)	-	(367)
Loss on valuation of contingent liabilities	-	(101)	(5)	(201)
Gain (loss) on valuation of conversion option liability (Note 12)	2,395	(2,770)	768	(3,272)
Other (losses) gains (i)	(387)	569	1,044	554
	\$ 1,770	\$ (3,270)	\$ 1,890	\$ (2,733)

(i) Other gains (losses), for the six months ended June 30, 2020, include the \$1.4 million gain recognized from the disposal of 100% controlling interest in Meager Creek Development Corporation.

8. Divestitures

- (a) Given the Company's stated geographical growth target of Latin America, the legacy North American properties are not a strategic fit to the Company's long-term strategy. As such, on March 25, 2021, the Company completed the disposal of 100% controlling interest in Meager Creek Development Corporation ("MCDC") in British Columbia for proceeds of \$0.4 million CAD. MCDC has Canadian lease interests and associated assets and liabilities for a total gain of \$1.4 million recognized in other income, net of transaction costs. The following is a breakdown of the assets and liabilities sold:

	As at March 25, 2021
Assets	
Restricted cash	118
Other assets, net	30
Total assets	\$ 148
Non-current liabilities	
Decommissioning liabilities	1,288
Total liabilities	\$ 1,288

9. Accounts Receivable

	June 30, 2021	December 31, 2020
Nicaragua (i)		
San Jacinto (Geothermal)	\$ 8,993	\$ 19,345
Peru (ii)		
Canchayllo (Hydroelectric)	6	19
Generación Andina (Hydroelectric)	21	25
	\$ 9,020	\$ 19,389

(i) The Company's accounts receivable as of June 30, 2021 and 2020 are mainly comprised of balances due to the Nicaraguan subsidiary by its customers, Disnorte and Dissur, which have 45 days term from invoice date.

(ii) 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 (plus an effective annual interest rate of 12%). 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 a loss allowance (Note 15 (b) Credit Risk).

Polaris Infrastructure Inc.

Notes to the Consolidated Financial Statements

June 30, 2021 and 2020

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

10. Construction in Progress

	December 31, 2020	2020 Write-off	2021 Activity	2021 Transfers to PP&E	June 30, 2021
San Jacinto Binary Plant	\$ 1,126	\$ -	\$ 192	\$ -	\$ 1,318
San Jacinto improvements	25	-	340	(365)	-
	\$ 1,151	\$ -	\$ 532	\$ (365)	\$ 1,318

	December 31, 2019	2020 Write-off	2020 Activity	2020 Transfers to PP&E	December 31, 2020
San Jacinto Binary Plant	\$ 1,160	\$ -	\$ (34)	\$ -	\$ 1,126
Canchayllo improvements	25	-	(25)	-	-
San Jacinto Drilling Costs	193	-	21	(189)	25
	\$ 1,378	\$ -	\$ (38)	\$ (189)	\$ 1,151

11. Property, Plant and Equipment, net

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

	December 31, 2020	2021 Activity	2021 Transfers from CIP	Impairment reversal	June 30, 2021
San Jacinto geothermal project	\$ 520,527	\$ 40	\$ 365	\$ -	\$ 520,932
Canchayllo hydroelectric project	10,064	-	-	-	10,064
Generación Andina hydroelectric projects	63,103	-	-	-	63,103
Accumulated depreciation	(225,559)	(12,871)	-	-	(238,430)
Other assets	624	266	-	-	890
Capital spares	4,003	224	-	-	4,227
	\$ 372,762	\$ (12,341)	\$ 365	\$ -	\$ 360,786

	December 31, 2019	2020 Activity	2020 Transfers from CIP	Impairment reversal	December 31, 2020
San Jacinto geothermal project	\$ 520,338	\$ 24,535	\$ 189	\$ (24,535)	\$ 520,527
Canchayllo hydroelectric project	10,084	(20)	-	-	10,064
Generación Andina hydroelectric projects	62,943	160	-	-	63,103
Accumulated depreciation	(226,952)	(23,142)	-	24,535	(225,559)
Other assets	-	624	-	-	624
Capital spares	4,046	(43)	-	-	4,003
	\$ 370,459	\$ 2,114	\$ 189	\$ -	\$ 372,762

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 \$6.5 million and \$6.4 million for the periods ended June 30, 2021 and 2020 respectively, including depreciation of intangible assets was recorded in the consolidated statements of operations and comprehensive loss.

Polaris Infrastructure Inc.

Notes to the Consolidated Financial Statements

June 30, 2021 and 2020

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

12. 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	APG Debt	Generación Andina Debt	PIF Debenture	Total
Loans and other borrowings –									
December 31, 2020	\$ 24,117	\$ 10,322	\$ 79,671	\$ 15,825	\$129,935	\$ 22,778	\$ 20,444	\$ 16,138	\$189,295
Accrued interest expense	-	-	-	-	-	-	869	-	869
Deferred transaction costs	-	-	-	-	-	-	-	-	-
Proceed from loan	-	-	-	-	-	-	-	-	-
Return enhancement	-	(169)	-	(137)	(306)	-	-	-	(306)
Accretion of deferred transaction costs and debt discount	153	-	299	-	452	287	-	1,027	1,766
Repayments of debt	(3,194)	(734)	(4,488)	(611)	(9,027)	(1,000)	(1,000)	(3,540)	(14,567)
Effect of foreign exchange on loans	-	-	-	-	-	-	-	147	147
Loans and other borrowings –									
June 30, 2021	\$ 21,076	\$ 9,419	\$ 75,482	\$ 15,077	\$121,054	\$ 22,065	\$ 20,313	\$ 13,772	\$177,204
Current	\$ 6,880	\$ 1,542	\$ 9,297	\$ 1,262	\$ 18,981	\$ -	\$ 2,020	\$ -	\$ 21,001
Non-current	14,196	7,877	66,185	13,815	102,073	22,065	18,293	13,772	156,203
Unamortized discount/return enhancement	469	(1,785)	2,259	(2,254)	(1,311)	2,935	21,654	3,438	26,716
Principal balance	\$ 21,545	\$ 7,634	\$ 77,741	\$ 12,823	\$119,743	\$ 25,000	\$ 41,967	\$ 17,210	\$203,920

Maturity date 12/15/2024 12/15/2025 12/15/2028 6/15/2029 6/5/2028 6/15/2038 5/31/2024

	Three Months Ended		Six Months Ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Phase I Facility				
Interest recorded as financing cost	\$ 636	\$ 789	\$ 1,308	\$ 1,692
Accretion recorded as financing cost	74	91	153	187
Phase II Facility				
Interest recorded as financing cost	1,602	1,848	3,242	3,985
Accretion recorded as financing cost	147	162	298	327
Canchayllo Debt				
Interest recorded as financing cost	-	88	-	187
Generación Andina Debt				
Interest recorded as financing cost	439	424	869	838
APG Debt				
Interest recorded as financing cost	575	134	1,144	134
Accretion recorded as financing cost	144	35	287	35
Debentures				
Interest recorded as financing cost	509	530	1,027	1,056
Accretion recorded as financing cost	-	-	-	-
Other				
Interest recorded as financing cost	14	-	27	-
Accretion recorded as financing cost	-	-	-	-
Total				
Interest recorded as financing cost	\$ 3,775	\$ 3,813	\$ 7,617	\$ 7,892
Accretion recorded as financing cost	365	288	738	549

(i) Summary of Phase I and Phase II Credit Agreements

As at June 30, 2021 and 2020, 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 its subsidiaries other than PENSA and SJPIC.

Polaris Infrastructure Inc.

Notes to the Consolidated Financial Statements

June 30, 2021 and 2020

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

(ii) Summary of Andean Power Generation Ltd. (BVI) (“APG Ltd. (BVI)”) Credit Agreement

On June 05, 2020, APG Ltd. BVI, a wholly-owned subsidiary of the Company, entered into an agreement with the Brookfield Infrastructure Debt Fund (“Brookfield”), a global credit-focused fund managed by Brookfield Asset Management Inc., for a \$27.0 million credit facility, with an 8.75% annual interest rate, payable semi-annually and a term of 8 years. Repayment of the principal occurs in installments with various amounts due throughout the term of the loan, and \$20.2 million due on maturity.

(iii) Summary of Generación Andina Credit Agreement

As at June 30, 2021, 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, 2020, no agreements with third parties to use GA’s transmission line have been signed.

(iv) Summary of Debentures

On February 10, 2021, a total of 244,667 senior unsecured convertible debentures were converted into common shares.

The fair value of the debentures conversion option liability as of June 30, 2021 was \$7.1 million (December 31, 2020 - \$7.9 million) and a gain on valuation of \$0.8 million (2020 - \$3.3 million loss on valuation) was recognized in Other (losses) gains in the statement of operations for the six-month period ended June 30, 2021.

13. Share Capital

	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 Restricted and Deferred Stock Agreements	Number of Shares Reserved for Issue Under UEG Acquisition
Balance at December 31, 2019	16,306,299	15,706,299	260,886	155,132	2,132,405
Stock options forfeited or expired	-	-	(24,063)	-	-
Reversal of UEG acquisition contingent shares	-	-	-	-	(932,405)
Stock options vested	-	-	26,000	-	-
Balance at January 1, 2021	16,306,299	15,706,299	262,823	155,132	1,200,000
Shares issued in Private Placement (i)	2,556,450	2,556,450	-	-	-
Shares issued on conversion of Debentures (ii)	244,667	244,667	-	-	-
Shares issued in connection with RSUs (b)	114,637	114,637	-	(114,637)	-
RSUs settled in cash (b)	-	-	-	(40,495)	-
Shares issued in connection with UEG Acquisition (iii)	200,000	800,000	-	-	(800,000)
Reversal of UEG acquisition shares no longer payable (iii)	-	-	-	-	(300,000)
Balance at June 30, 2021	19,422,053	19,422,053	262,823	-	100,000

(i) On February 25, 2021, the Company completed an upsized bought deal offering (the “Offering”), under which a total of 2,556,450 Common Shares were sold at a price of \$20.25 CAD per Common Share for aggregate net proceeds to the Company of \$38.2 million.

(ii) On February 10, 2021, a total of 244,667 senior unsecured convertible debentures were converted into common shares.

(iii) On March 26, 2021, the Company entered into an agreement with Union Group International Holdings Limited (“UGIH”) to settle the previously reserved shares on the Union Energy Group (“UEG”) acquisition with the issuance of 900,000 shares, of which 100,000 remain subject to the vendor completing certain conditions as envisioned in the original agreement and continue to be reserved for issue. As a result of the agreement, the Company has 300,000 previously reserved acquisition shares that are no longer payable.

Polaris Infrastructure Inc.

Notes to the Consolidated Financial Statements

June 30, 2021 and 2020

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

The Company's Omnibus Long-Term Incentive Plan (the "LTIP") adopted in June 2012 and most recently amended and approved in June 2021, provides that equity awards 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.

(a) Stock options

Stock options granted under the LTIP are for a contractual term not to exceed five years from the date of their grant, and vesting is determined by the Company's Board.

The following table summarizes the information related to stock options outstanding and exercisable as at June 30, 2021:

Range \$CDN	Outstanding Options			Exercisable Options	
	Number of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price (\$CDN)	Number of Options Outstanding	Weighted Average Exercise Price (\$CDN)
0.00 - 99.99	531,323	1.4	\$ 15.54	262,823	\$ 14.25

For the periods ended June 30, 2021 and 2020, the Company recognized shared-based compensation expense associated with options, with a corresponding increase in contributed surplus, of \$0.1 million and \$0.1 million, respectively.

(b) Restricted Share Units ("RSUs")

On March 31, 2021, the Company settled the 155,132 fully vested RSUs outstanding by issuing 114,637 common shares and the cash equivalent for the remaining RSUs. As at June 30, 2021, there are no RSUs outstanding.

(c) Deferred Share Units ("DSUs")

As at June 30, 2021, 4088 DSUs are outstanding. For the periods ended June 30, 2021 and 2020, the Company recognized shared-based compensation expense associated with DSUs, with a corresponding increase in contributed surplus, of \$0.1 million and \$0.1 million, respectively.

14. Earnings per Share

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

	Three Months Ended		Six Months Ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Total earnings attributable to owners of the Company	\$ 159	\$ (1,025)	\$ (753)	\$ 3,335
Basic weighted average number of shares outstanding	19,422,053	15,706,299	18,143,626	15,706,299
Basic earnings per share	\$ 0.01	\$ (0.07)	\$ (0.04)	\$ 0.21

	Three Months Ended		Six Months Ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Total earnings attributable to owners of the Company	\$ 159	\$ (1,025)	\$ (753)	\$ 3,335
Diluted weighted average number of shares outstanding	19,516,401	15,706,299	18,425,394	16,354,607
Diluted earnings per share	\$ 0.01	\$ (0.07)	\$ (0.04)	\$ 0.20

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

	Three Months Ended		Six Months Ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Stock options - 12/20/2017 grant date	-	510,000	-	410,000
Stock options - 12/2/2016 grant date	-	144,108	-	112,386
Total anti-dilutive instruments	-	654,108	-	522,386

Polaris Infrastructure Inc.

Notes to the Consolidated Financial Statements

June 30, 2021 and 2020

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

15. 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 June 30, 2021 and December 31, 2020, 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 12.

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.

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 June 30, 2021 was 5.72%. 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 period ended June 30, 2021.

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.

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 June 30, 2021 and 2020, the Company had cash, accounts payable and long-term debt of \$27.7 million CAD and \$23.4 million CAD, respectively. As at June 30, 2021, the Company had cash, accounts receivable, prepaid contractor advances and accounts payable of Sol\$9.3 million 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 \$2.2 million for the period ended June 30, 2021. The Company determined that a 10% change in the Peruvian Soles against the US dollar would have impacted total loss and comprehensive loss by \$0.2 million for the year ended June 30, 2021. The Company does not enter into any foreign exchange contracts to mitigate this risk.

Polaris Infrastructure Inc.

Notes to the Consolidated Financial Statements

June 30, 2021 and 2020

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

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.

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.

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 at June 30, 2021. 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.

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 financial liabilities as at June 30, 2021:

	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years	Total
Accounts payable and accrued liabilities	\$ 10,237	\$ -	\$ -	\$ -	10,237
Debt, current and long-term	21,001	45,864	52,851	84,201	203,917
Interest obligations	10,215	10,215	10,215	10,215	40,860
	\$ 41,453	\$ 56,079	\$ 63,066	\$ 94,416	255,014
