POLARIS

POLARIS INFRASTRUCTURE INC.

Management's Discussion and Analysis
For the Year Ended December 31, 2016 **March 7, 2017**

INTRODUCTORY COMMENTS

General

The following management's discussion and analysis ("MD&A") focuses on significant factors that affected Polaris Infrastructure Inc. and its subsidiaries ("Polaris Infrastructure," "we" or the "Company") during the relevant reporting period and to the date of this report. It contains a review and analysis of the financial results for the year ended December 31, 2016, identifies business risks that the Company faces and comments on the financial resources required for the development of its business.

This MD&A supplements, but does not form part of, the consolidated financial statements of the Company and the notes thereto for the year ended December 31, 2016. Additional information relating to the Company such as the Annual Information Form ("AIF") can be found on the System for Electronic Disclosure and Retrieval ("SEDAR") at www.sedar.com. Unless stated otherwise, the information in this MD&A is current as at March 7, 2017.

All amounts, unless specifically identified as otherwise, both in the consolidated financial statements and this MD&A are expressed in U.S. dollars.

Certain measures in this document do not have any standardized meaning as prescribed by International Financial Reporting Standards ("IFRS") and, therefore, are not considered generally accepted accounting principles ("GAAP") measures. Where non-GAAP measures or terms are used, definitions are provided. In this document and in the Company's consolidated financial statements, unless otherwise noted, all financial data is prepared in accordance with IFRS.

Earnings before interest, taxes, depreciation and amortization ("EBITDA") is a non-GAAP metric used by many investors to compare companies on the basis of ability to generate cash from operations. The Company uses Adjusted EBITDA to assess its operating performance without the effects of (as applicable): current and deferred tax expense, finance costs, interest income, other gains and losses, impairment loss, depreciation and amortization of plant assets, share-based compensation and other non-recurring items. The Company adjusts for these factors as they may be non-cash, unusual in nature and are not factors used by management for evaluating the performance of the Company. The Company believes the presentation of this measure will enhance an investor's understanding of its operating performance. Adjusted EBITDA is not intended to be representative of cash provided by operating activities or results of operations determined in accordance with GAAP.

Forward-looking Statements

This MD&A contains forward-looking information or future-oriented financial information and, as such, is based on an assumed set of economic conditions and courses of action. Please refer to the cautionary note at the end of this MD&A regarding the risks associated with the forward-looking information and the risk factors set out under the headings "RISKS AND UNCERTAINTIES" in this MD&A, and "Forward Looking Statements" and "Risk Factors" in the Company's AIF for the year ended December 31, 2016 available on SEDAR at www.sedar.com.

BUSINESS OVERVIEW AND STRATEGY

Polaris Infrastructure is a Toronto-based company engaged in the operation, acquisition and development of renewable energy projects in Latin America. Currently the Company operates a 72 MW geothermal project located in Nicaragua.

Polaris Infrastructure's continuing mission is to become a leading international renewable power project developer and supplier of clean and reliable geothermal power. The Company has an experienced geothermal project development and management team. Senior management has extensive experience in critical areas of geothermal development and operations. The board of directors of the Company (the "Board") is comprised of individuals with a broad range of industry and business expertise who are well qualified to provide oversight and strategic direction to the Company.

Events, transactions and activities relating to Polaris Infrastructure's geothermal properties which occurred during the year ended December 31, 2016 and to the date of this MD&A are discussed below.

Recent Developments

San Jacinto Operations Commentary

The fourth quarter of 2016 was the first full quarter benefiting from connection to the San Jacinto power plant (the "San Jacinto project") of two new wells, SJ 6-3 and SJ 9-4. Accordingly, net power generation in the fourth quarter of 2016 was 60.0 MW, versus an average of 47.4 MW in the first two quarters of the year (before new wells were brought online). The new production wells, SJ 6-3 and SJ 9-4, have in excess of six months in operation since being first connected to the plant. While geothermal wells can take over one year to stabilize, SJ 6-3 and SJ 9-4 are exhibiting behaviours that suggest such stabilization has occurred, or is very close to occurring.

Following planned maintenance of the Unit 3 turbine at the San Jacinto project in July 2016, planned maintenance of the Unit 4 turbine was successfully completed in February 2017, and resulted in downtime of approximately three weeks. Accordingly, we anticipate generation for the first quarter of 2017 to be negatively impacted by approximately 1.5 - 2 MW. We are pleased however to have completed these important preventative maintenance activities on both turbines at the San Jacinto project, which leaves us well positioned for consistent operation throughout the balance of 2017.

2015/2016 San Jacinto Drilling Program

The Company's wholly-owned subsidiary, Polaris Energy Nicaragua S.A. ("PENSA"), completed a major drilling program, which began in October 2015 and was substantially completed in July 2016. The 2015/2016 Drilling Program, with an aggregate cost of approximately $38 million, consisted of drilling three new wells, completing the mechanical "workover" of four existing injection wells, as well as a series of infrastructure investments (well pad improvements, road improvements and a new separator station).

Both new production wells, SJ 6-3 and SJ 9-4, were connected to the plant in August 2016. The final component of the 2015/2016 Drilling Program was completed in February 2017, coincident with planned maintenance of the Unit 4 turbine. A new high-efficiency separator station was installed, replacing an outdated vessel. The new separator has increased capacity, improved steam separation efficiency and is anticipated to help facilitate ongoing optimization of San Jacinto operations.

The other new well that was drilled, SJ 14-1, continues to successfully serve as a condensate injection well, which has helped to further increase the overall injection capacity of the San Jacinto project, by opening up SJ 12-1 as an injection well for geothermal fluids.

Dividend Increase

On February 7, 2017, the Board authorized and declared the Company's fourth dividend, namely a quarterly dividend of $0.12 per outstanding common share, which reflects a 9% increase in quarterly dividend versus that declared in November 2016, and a 20% increase relative to the $0.10 dividend initiated in March 2016. This latest dividend was paid on February 22, 2017 to shareholders of record at the close of business on February 17, 2017.

The $0.12 dividend per share for the fourth quarter of 2016 equates to approximately a 31% payout ratio, while if annualized on a full-year 2016 basis, $0.48 dividend per share equates to approximately a 43% payout ratio. This payout ratio continues to reflect not only all debt service requirements, but also allows for capital being put aside to finance management's estimate of sustaining capital expenditure, which contemplates drilling of future production and/or injection wells, as well as ongoing steamfield and turbine maintenance. For the foreseeable future, the Company does not anticipate payment of withholding taxes on repatriation of capital from PENSA, and PENSA is not expected to be subject to Nicaragua income taxes until 2022-2023.

The latest dividend increase is viewed as sustainable and is below the Company's target payout ratio. The board of directors of Polaris Infrastructure remains committed to paying a quarterly dividend and will evaluate further dividend increases if considered appropriate at such time.

OPERATING PROJECT

San Jacinto-Tizate – San Jacinto, Nicaragua

The Company, through its subsidiary, PENSA, owns and operates a 72 MW (net) capacity geothermal facility. The San Jacinto project is located in northwest Nicaragua, near the city of Leon, approximately 90 km northwest of Managua. The San Jacinto project exploitation agreement covers an area of 40 km^2.

PENSA has a power purchase agreement ("PPA") in place for the San Jacinto project with Nicaraguan power distributors Disnorte-Dissur, subsidiaries of the Spanish utility TSK-Melfosur Internacional. PENSA has entered into the San Jacinto Exploitation Agreement with the Nicaraguan Ministry of Energy and Mines to develop and operate the San Jacinto project. Under the PPA, the company generated 459,990 MWh (average 52.4 MW (net)) and 433,988 MWh (average 49.5 MW (net)) for the years ended December 31, 2016 and 2015, respectively. These production figures are net of all plant downtime, both planned and unplanned. For the year ended December 31, 2016 and 2015, the San Jacinto project generated revenue of $54.7 million and $50.1 million, respectively.

As of December 31, 2016, PENSA held cash of $7.7 million to fund plant operations, $2.8 million in a reserve account to fund drilling and maintenance activities and $11.4 million held as debt service reserves. During the year ended December 31, 2016, PENSA repaid $8.5 million of principal on its San Jacinto project credit facilities. As at December 31, 2016, PENSA had $181.1 million outstanding on those credit facilities.

As discussed in detail above, PENSA recently completed a major drilling program with purpose of bringing power generation at the San Jacinto project as close as possible to the 72 MW (net) capacity level that is covered under the PPA and by existing plant infrastructure. We are pleased with the preliminary results of the drilling program, and yet with space remaining available under the 72 MW PPA, we are actively evaluating the strategic merit of drilling up to one additional injection well and one additional production well, at the San Jacinto project. We are presently completing various surface studies that will facilitate decision-making with respect to additional wells and will provide further commentary as appropriate.

Further, we have completed pre-feasibility assessments with respect to the addition of a binary unit at the San Jacinto project, have engaged Power Engineers as owner's engineer and are in discussions with the Nicaragua grid operator with respect to the PPA.

We are also actively exploring above-ground infrastructure investments to allow the removal of throughput constraints related to reinjection of geothermal fluids. We estimate these throughput constraints have resulted in foregone power generation of 2 to 4 MW since approximately early December 2016.

EXPLORATION AND DEVELOPMENT PROPERTIES

Casita Project

The Casita-San Cristobal project (the "Casita project") is located in northwest Nicaragua in the Department of Chinandega. In 2008, through an international bid, Cerro Colorado Power, S.A. ("CCPSA"), a 95% owned subsidiary of the Company, was awarded the Casita project exploration concession with an area of 100 km^2.

The Company has entered into discussions with The World Bank Group (the "World Bank") and the Nicaragua Ministry of Energy and Mines with respect to financing for purposes of completing an initial drilling program at the Casita project. To the extent the Company is able to complete the contemplated financing, it would enable pursuing a drilling campaign at the Casita project without requiring cash flow from our San Jacinto project, and on a non-recourse basis to both the Company and PENSA. Discussions with the World Bank and the Nicaraguan Ministry of Energy and Mines are ongoing and we will provide further updates as appropriate.

As of December 31, 2016, the Company had $11.1 million in accumulated costs related to the Casita project.

Other Exploration and Development Projects

The Company's Orita geothermal project is located in Imperial County, California, close to the Salton Sea geothermal area. The Company's Clayton Valley geothermal project is located in Esmeralda County, Nevada. The Company's portfolio of geothermal exploration properties also consists of Reese River in Southern California and South Meager Creek in British Columbia.

The Company has been pursuing a course of action to sell various lease interest and otherwise reduce annual costs associated with these non-core assets, with strategic focus on maximizing the cash flow and profitability of the Company's producing assets in Nicaragua.

The Company experienced success in reducing costs with respect to its North American properties over the course of 2016. Namely, the overall number of leases declined from 41 at the start of 2015, to 8 as of December 31, 2016. The reduction reflects several leases being terminated, the renegotiation of the Orita project lease and the sale of eight Clayton Valley project leases to a strategic player for net proceeds of approximately $58,000.

SUBSEQUENT EVENTS

Any events occurring between December 31, 2016 and March 7, 2017 related to the Company's projects and operations are incorporated in the "Business Overview and Strategy" section above under the heading "Recent Developments."

FINANCIAL OVERVIEW

Selected Annual Information

The information provided below highlights the Company's annual results for the past three years.

(in thousands, except for loss per share)	For the Year Ended December 31, 2016	For the Year Ended December 31, 2015	For the Year Ended December 31, 2014
Average production	52.4 MW (net)	49.5 MW (net)	49 MW (net)
Revenue	$ 54,659	$ 50,149	$ 48,184
Adjusted EBITDA [(1)]	45,473	39,149	34,422
Impairment (loss)	-	(40,440)	-
Total loss and comprehensive loss attributable to owners of the Company	(4,261)	(37,494)	(24,677)
Total loss per share attributable to owners of the Company	($0.27)	($3.78)	($133.02)
Cash	45,739	61,592	15,292
Restricted cash	1,505	1,502	464
Total current assets	58,682	68,465	26,574
Total assets	409,248	415,863	422,501
Total long-term liabilities	199,829	197,409	75,258
Total equity attributable to the owners of the Company	194,910	203,098	133,518

(1) Refer to Use of Non-GAAP Measures section for further details with respect to calculation of Adjusted EBITDA.

Review of Results for the Year Ended December 31, 2016

During the year ended December 31, 2016 and 2015, the San Jacinto project generated average production of 52.4 MW (net) and 49.5 MW (net), respectively. The Company's revenue of $54.7 million was 9% higher than for the same period in 2015, driven by a 6% increase in generation combined with the 3% annual tariff increase effective for 2016.

Direct costs of energy production for the year ended December 31, 2016 (other than depreciation and amortization expense) of $6.2 million were down by $0.4 million versus the same period in 2015, principally due to a decrease in insurance premiums. Depreciation and amortization expense associated with energy production (included in direct costs) was $22.2 million for the year ended December 31, 2016, down from $26.0 million in the prior year. The decrease was driven by the extension of estimated useful life of certain property, plant and equipment ("PP&E") and the lower carrying value of long-lived assets stemming from impairment charges recorded in 2015.

General and administrative expenses for the year ended December 31, 2016 decreased $1.6 million to $3.7 million from $5.3 million for the year ended December 31, 2015, as a result of decreased professional fees and share-based compensation expense.

For the year ended December 31, 2016, Adjusted EBITDA totaled $45.5 million, as compared to $39.1 million for the same period in 2015, an increase of $6.4 million. The overall improvement was a result of a $4.9 million increased contribution from the San Jacinto project (mostly attributed to revenue growth) combined with a decrease in general and administrative costs (ignoring share-based compensation) of $1.1 million. *See Use of Non-GAAP Performance Measures section below for reconciliation of Adjusted EBITDA to Total loss and comprehensive loss.*

For the year ended December 31, 2016, finance costs of $19.0 million were recorded, an increase of $7.8 million compared to the year ended December 31, 2015. The increase is attributed to unusually low finance costs in 2015 resulting from the San Jacinto project debt restructuring, combined with one-time charges recorded in 2016 as a result of an increase in estimated future return enhancement payments related to higher EBITDA projections. During the year ended December 31, 2016, expected future cash flows of the project increased with the completion of the drilling program and resulted in an increase to the carrying value of the subordinated debt and increased interest expense of $2.1 million. During the year ended December 31, 2015, restructuring of the San Jacinto project credit agreements resulted in a decline in the carrying value of the subordinated debt and a reduction to interest expense of $9.4 million.

The Company recognized a net loss of $4.3 million for the year ended December 31, 2016 compared to a net loss of $37.8 million for the same period in 2015. The decreased loss of $33.5 million was driven by $40.4 million of non-cash impairment losses recorded in 2015, partially offset by an increase in finance costs and a current period deferred income tax expense.

Results of the Company are not subject to seasonality. Variation in revenue from quarter to quarter is primarily a function of fluctuations in power generation, which is in turn a function of natural geological resource characteristics and management decisions with respect to maintenance activities.

Impairments losses booked in 2015 relate primarily to the San Jacinto project, and stem largely from refinements to various assumptions underpinning the value in use valuation methodology employed by the Company. Specifically, impairment losses recorded in third quarter 2015 resulted from a net increase in the discount rate used in the determination of the recoverable amount of the San Jacinto project.

During the year ended December 31, 2016, the Company incurred costs of $25.6 million for additions to its exploration and development, geothermal properties and property and PP&E, virtually all of which was related to the San Jacinto project.

The accounts receivable balance as at December 31, 2016 is somewhat elevated, reflecting revenues earned in November and December 2016, versus the December 31, 2015, balance, which reflects lower average revenues as well as a $3.6 million early payment of an accounts receivable balance, which was not repeated in December 2016.

Summary of Unaudited Quarterly Results

The information provided below highlights the Company's quarterly results for the past two years.

(in thousands, except for income (loss) per share)	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Average production	60 MW (net)	54.6 MW (net)	46.5 MW (net)	48.4 MW (net)
Revenue	$ 15,694	$ 14,260	$ 12,145	$ 12,560
Direct cost of energy production	(7,037)	(6,351)	(7,524)	(7,510)
General and administrative expenses	(851)	(927)	(947)	(943)
Other operating costs	(47)	(82)	(70)	(43)
Adjusted EBITDA	13,294	11,961	9,837	10,379
Finance costs	(4,340)	(6,201)	(4,239)	(4,247)
Loss on impairment of assets and goodwill	-	-	-	-
Net earnings (loss) attributable to owners of the Company	1,756	(1,642)	(2,305)	(2,070)
Earnings (loss) per share (basic and diluted) attributed to owners of the Company	$0.11	($0.10)	($0.15)	($0.13)
Cash	45,739	42,415	47,641	56,110
Restricted cash	1,505	1,507	1,508	1,509
Total equity attributable to Owners of the Company	194,910	194,680	197,741	199,794

(in thousands, except for income (loss) per share)	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Average production	47.7 MW (net)	50.8 MW (net)	50.6 MW (net)	48.8 MW (net)
Revenue	$ 12,101	$ 12,896	$ 12,817	$ 12,334
Direct cost of energy production	(7,958)	(8,220)	(8,363)	(8,146)
General and administrative expenses	(1,236)	(1,009)	(1,886)	(1,165)
Other operating costs	29	(417)	2	(142)
Adjusted EBITDA	9,426	10,144	10,072	9,507
Finance costs	(2,515)	(4,467)	2,127	(6,397)
Loss on impairment of assets and goodwill	-	(30,345)	(10,096)	-
Net loss attributable to owners of the Company	(1,447)	(24,222)	(9,633)	(2,192)
Loss per share (basic and diluted) to owners of the Company	($0.09)	($1.56)	($1.16)	($11.81)
Cash	61,592	64,334	71,725	16,885
Restricted cash	1,502	1,505	1,513	431
Total equity attributable to Owners of the Company	203,098	204,224	228,125	131,326

Review of Results for the Quarter Ended December 31, 2016

During the three months ended December 31, 2016 and 2015, the San Jacinto project generated average production of 60.0 MW (net) and 47.7 MW (net), respectively, with 2016 production benefiting from the additional wells connected to the San Jacinto project in August 2016. These production figures are net of all plant downtime, both planned and unplanned. The Company's revenue of $15.7 million was up from $12.1 million for the same period in 2015, principally as a result of a significant 26% increase in average production, combined with the 3% annual tariff increase effective for 2016.

Direct costs of energy production (other than depreciation and amortization) for the three months ended December 31, 2016 of $1.7 million were $0.1 million lower than the same period in 2015, principally as a result of decreased insurance premiums. Depreciation and amortization expense associated with energy production (included in direct costs) for the three months ended December 31, 2016 of $5.4 million was $0.8 million lower than the same period in 2015, driven by with the decrease in net book value of property, plant and equipment as a result of impairment charges recorded in 2015 and changes in estimated useful lives.

General and administrative expenses for the three months ended December 31, 2016 decreased $0.3 million to $0.9 million from $1.2 million for the three months ended December 31, 2015, principally as a result of a $0.2 million decrease in share-based compensation expense and a $0.1 million decrease in legal and professional costs.

For the three months ended December 31, 2016, Adjusted EBITDA totaled $13.3 million, as compared to $9.4 million for the same period in 2015. The increase was a result of additional revenue stemming from improved average generation, combined with a modest decrease in plant and general and administrative costs. *See Use of Non-GAAP Performance Measures section below for reconciliation of Adjusted EBITDA to Total loss and comprehensive loss.*

For the three months ended December 31, 2016, finance costs of $4.3 million were recorded, an increase of $1.8 million compared to the three months ended December 31, 2015. This increase was the result of interest on debt in the three months ended December 31, 2015 being unusually low as a result of the San Jacinto project loan agreement restructuring.

The Company recognized earnings of $1.8 million for the three months ended December 31, 2016 compared to a net loss of $1.5 million for the same period in 2015. The $3.3 million improvement in earnings was driven primarily by increased revenue, partially offset by increased finance costs. There were no indicators of impairment as at December 31, 2016, and accordingly no impairment loss was booked in fourth quarter 2016.

During the three months ended December 31, 2016, the Company incurred costs of $2 million for additions to its exploration and development, geothermal properties and PP&E, virtually all of which was related to the San Jacinto project.

NON-GAAP PERFORMANCE MEASURES

The following table is derived from and should be read in conjunction with the unaudited interim consolidated statement of operations and comprehensive loss. This supplementary disclosure is intended to more fully explain disclosures related to Adjusted EBITDA and provides additional information related to the operating performance of the Company. Investors are cautioned that this measure should not be construed as an alternative to GAAP consolidated total loss and comprehensive loss.

	Three Months Ended		Year Ended	
(in thousands)	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Net earnings (loss) and comprehensive earnings (loss) attributable to Owners of the Company	$ 1,756	$ (1,447)	$ (4,261)	$ (37,494)
Add (deduct):				
Net earnings (loss) attributable to non-controlling interest	5	(15)	(43)	(294)
Current and deferred tax (expense) recovery	1,888	1,872	7,584	(4,172)
Finance costs	4,340	2,515	19,027	11,252
Interest income	(68)	(23)	(286)	(76)
Other losses (gains)	(163)	33	306	1,983
Impairment loss	-	-	-	40,440
Depreciation and amortization of plant assets	5,373	6,164	22,180	26,029
Share-based compensation	163	327	966	1,481
Adjusted EBITDA	$ 13,294	$ 9,426	$ 45,473	$ 39,149

LIQUIDITY AND CAPITAL RESOURCES

The following is a summary and explanation of the Company's cash flow activities:

	Year Ended	
(in thousands)	December 31, 2016	December 31, 2015
Net cash from (used in)		
Operating activites	$ 25,416	$ 25,588
Investing activites	(27,900)	(15,577)
Financing activities	(13,355)	36,413
Foreign exchange gain on cash held in foreign currency	(14)	(123)
Increase (decrease) in cash	$ (15,853)	$ 46,301

Operating Activities

Net cash from operating activities for the year ended December 31, 2016 of $25.4 million decreased by $0.2 million from the same period in 2015, principally resulting from an $8.8 million net increase in working capital, largely offset by an increase in operating cash receipts.

Investing Activities

Net cash used for investing activities during the year ended December 31, 2016 of $27.9 million increased $12.3 million compared to the same period in 2015. The increased use of cash principally relates to costs incurred in the 2015/2016 San Jacinto drilling program

Financing Activities

Net cash used for financing activities for year ended December 31, 2016 of $13.4 million, compares with cash provided by financing activities of $36.4 million for year the same period in 2015. The use of cash in 2016 reflects normal course repayment of project debt principal as well as dividends paid, whereas the net provision of funds in 2015 principally related to the net proceeds from the Private Placement (as defined below).

In May 2015, the Company completed an equity financing and recapitalization transaction (the "Private Placement"). The first step of the Private Placement was completed when the Company closed a private placement offering on April 30, 2015 of 18,598,500,000 subscription receipts (the "Subscription Receipts") at a price per Subscription Receipt of CDN$0.004 ("Subscription Price") for gross proceeds of approximately CDN$74 million. Each Subscription Receipt entitled the holder to receive, without payment of additional consideration, one pre-Consolidation Share (as defined below) common share in the capital of the Company (each a "Pre-Consolidation Share"), upon the satisfaction of certain release conditions. The escrow release conditions were fully satisfied on May 13, 2015, and the Subscription Receipts were converted into common shares and the proceeds of the private placement were released to the Company.

The Company's outstanding CDN$53,016,338 aggregate principal amount of 8.5% senior secured debentures, together with approximately CDN$1,642,054 of accrued and unpaid interest were converted into approximately 10,931,678,292 Pre-Consolidation Shares at a conversion price of CDN$0.005 per share;

The Company's common shares were consolidated (the "Share Consolidation") at a ratio of 2,000 Pre-Consolidation Shares for each post-consolidation common share in the capital of the Company (each a "Post-Consolidation Share"). A total of approximately 31,026,418,906 Pre-Consolidation Shares were issued and outstanding immediately prior to the Share Consolidation, which resulted in a total of approximately 15,513,157 Post-Consolidation Shares issued and outstanding following completion of the Share Consolidation. The Company's common shares began trading on the TSX on a post-Share Consolidation basis on May 19, 2015.

The completion of the Private Placement resulted in certain adjustments being made to the Company's outstanding common share purchase warrants (the "Warrants") in accordance with the terms of the warrant indenture dated March 27, 2013 between the Company and CST Trust Company, as warrant agent (the "Warrant Indenture"). Previously the exercise price of the Warrants was Cdn$0.30 per Pre-Consolidation Share. In accordance with the adjustment terms of the Warrant Indenture, the exercise price is now $600 per Post-Consolidation Share and the exchange ratio of the Warrants has been adjusted to 2,000 Warrants for one Post-Consolidation Share. As a result of these adjustments, and due to the insignificant trading volume of the Warrants, the Warrants were delisted from the TSX.

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 seeking to arrange for it to have sufficient cash, available credit facilities and other financial resources to allow it to meet its obligations. The Company forecasts cash flows for a period of at least 12 months to identify financial requirements.

The following are maturities for the Company's non-derivative and derivative financial liabilities as at December 31, 2016:

(in thousands)	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years	Total
Accounts payable and accrued liabilities	$ 4,114	$ -	$ -	$ -	$ 4,114
Debt, current and long-term	10,647	25,566	34,258	111,377	181,848
Interest obligations	12,983	23,494	19,215	25,933	81,625
	$ 27,744	$ 49,060	$ 53,473	$ 137,310	$ 267,587

The following are annual principal obligations on the San Jacinto project Credit Facilities for the remaining term of the loans:

(in $ thousands)	
2017	9,858
2018	11,857
2019	13,709
2020	16,203
2021	18,055
2022	19,908
2023	21,760
2024	17,074
2025	14,703
2026	13,811
2027	14,534
2028	8,203
2029	1,384
Total	181,059

Interest on the San Jacinto project Credit Facilities is due and payable quarterly, and is currently estimated to be approximately $3.3 million each quarter. The Company plans to make payments of interest on the San Jacinto project credit facilities out of its current cash and cash generated by operations.

The Company believes operating cash flow will be sufficient to allow the Company to fulfill its current obligations and continue to operate for the foreseeable future. Should additional capital requirements or the replacement of debt be necessary, the Company expects it could satisfy these requirements through debt restructurings, capital raises or asset sales. However, the outcome of these matters cannot be predicted with certainty at this time.

SHARE CAPITAL AND FINANCINGS

As of March 7, 2017, the Company had 15,673,278 common shares outstanding.

As of March 7, 2017, the Company had 52,380,650 outstanding warrants expiring March 22, 2018, with an exercise price of Cdn$600. The warrants issued under the debentures were adjusted as part of the Share Consolidation, resulting in an exchange basis of 2,000 warrants for one common share of the Company. The warrant price was also adjusted from $0.30 to $600 for each common share acquired in connection with the exchange of warrants.

As of March 7, 2017, there were 171,397 outstanding stock options, with a weighted average exercise price of Cdn$14.65 and 3.9 year remaining contractual life. The outstanding stock options' exercise prices range from Cdn$10.00 to Cdn$460.00, and expire from November 2017 to December 2021. Of the outstanding stock options, 8,268 are exercisable. The Company had 163,132 restricted shares outstanding as of March 7, 2017. The Company had 4,839 deferred shares outstanding as of March 7, 2017, none of which had vested.

RELATED PARTY TRANSACTIONS

As discussed more fully in Note 20 of the consolidated financial statements of the Company and the notes thereto for the year ended December 31, 2016, Certain insiders of the Company at the time of the Private Placement received common shares in connection with the conversion of debentures.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Recent Pronouncements Issued and Early Adoption of Standards

The Company has reviewed new and revised accounting pronouncements that have been issued and are effective for periods beginning on or after January 1, 2017. For details with respect to accounting standards issued but not yet effective please refer to Note 3(b) of the consolidated financial statements of the Company and the notes thereto for the year ended December 31, 2016.

Critical accounting estimates

The timely preparation of the consolidated financial statements requires that management make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosure 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 in Note 3(b) of the consolidated financial statements of the Company and the notes thereto for the year ended December 31, 2016.

Changes in accounting policies

Effective December 31, 2015, the Company changed its accounting policy related to treatment of the return enhancement under the San Jacinto project subordinated credit agreements. Previously, the Company considered the return enhancement an embedded derivative under IFRS 9 – Financial Instruments and valued it separately from the loan agreements. The May 2015 restructuring of the loan agreements resulted in significant changes to the return enhancement feature and consequently, the valuation of the embedded derivative changed significantly. IFRS allows an alternative treatment for the return enhancement feature, under which the return enhancement feature is not considered an embedded derivative. Management believes that as a result of the restructuring of the debt, treatment of the return enhancement as an embedded derivative is less relevant for users of the financial statements than the inclusion of the enhancement cash flows in the interest charge. The Company has changed its accounting policy for the return enhancement and will no longer account for it as an embedded derivative. Instead, the return enhancement features are now incorporated in the measurement of amortized cost of the loan and determination of interest expense using the effective interest method. There is no impact on the consolidated statements of cash flow as a result of the change in accounting policy.

CONTROL MATTERS

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining adequate disclosure controls and internal controls over financial reporting as defined under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings of the Canadian Securities Administrators.

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in the Company's annual filings, interim filings, or other reports filed with Canadian securities regulatory authorities is recorded, processed, summarized and reported in a timely fashion. The disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in such reports is then accumulated and communicated to the Company's management, including the Chief Executive Officer and the Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

Based on the evaluation of disclosure controls and procedures, the Chief Executive Officer and the Chief Financial Officer have concluded for the reasons discussed herein that the Company's disclosure controls and procedures and internal controls over financial reporting are effective as at December 31, 2016.

Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting of the Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company's internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the annual or interim financial statements.

RISKS AND UNCERTAINTIES

The risks and uncertainties described in the Company's AIF for the year ended December 31, 2016 are considered by management to be the most important in the context of the Company's business. The risks and uncertainties included in the AIF are not inclusive of all the risks and uncertainties the Company may be subject to and other risks may apply.

The risks and uncertainties discussed in the Company's current AIF and other filings with Canadian provincial securities regulatory authorities should be read in conjunction with the risks and uncertainties discussed throughout this MD&A. The Company's AIF and other filings with Canadian provincial securities regulatory authorities are available on SEDAR at www.sedar.com.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains "forward-looking information" within the meaning of applicable Canadian Securities legislation, which may include, but is not limited to, financial and other projections as well as statements with respect to future events or future performance, management's expectations regarding our growth, results of operations, and business prospects and opportunities. In addition, statements relating to estimates of recoverable geothermal energy "resources" or energy generation capacities are forward-looking information, as they involve implied assessment, based on certain estimates and assumptions, that electricity can be profitably generated from the described geothermal resources in the future. Such forward-looking information reflects management's current beliefs and is based on information currently available to management. Often, but not always, forward-looking statements can be identified by the use of words such as "plan", "expect", "is expected", "budget", "estimates", "goals", "intend", "targets", "aims", "likely", "typically", "potential", "probable", "projects", "continue", "strategy", "proposed", or "believes" or variations (including negative variations) of such words and phrases or may be identified by statements to the effect that certain actions "may", "could", "should", "would" or "shall" be taken, occur or be achieved.

Forward-looking information in this MD&A include among others: the future development of the San Jacinto project; additional changes to the steamfield to increase production; the costs of construction of a Binary Unit for the San Jacinto project; development of the Casita project including obtaining the necessary permits and financing to begin exploitation drilling and initial development; potential strategic alternatives and the potential sale of the Company's Orita project, Clayton Valley project and other geothermal and exploration and development properties.

A number of known and unknown risks, uncertainties and other factors may cause the Company's actual results or performance to materially differ from any future results or performance expressed or implied by the forward-looking information. Such factors include, among others: failure to discover and establish economically recoverable and sustainable geothermal resources through the Company's exploration and development programs; imprecise estimation of probability simulations prepared to predict prospective geothermal resources or energy generation capacities; variations in project parameters and production rates; defects and adverse claims in the title to the Company's properties; failure to obtain or maintain necessary licenses, permits and approvals from government authorities; the impact of changes in foreign currency exchange and interest rates; changes in government regulations and policies, including laws governing development, production, taxes, labor standards and occupational health, safety, toxic substances, resource exploitation and other matters; availability of government initiatives to support renewable energy generation; increase in industry competition; fluctuations in the market price of energy; impact of significant capital cost increases; unexpected or challenging geological conditions; changes to regulatory requirements, both regionally and internationally, governing development, geothermal resources, production, exports, taxes, labor standards, occupational health, waste disposal, toxic substances, land use, environmental protection, project safety and other matters; economic, social and political risks arising from potential inability of end-users to support the Company's properties; insufficient insurance coverage; inability to obtain equity or debt financing; fluctuations in the market price of the common shares and warrants of the Company; impact of issuance of additional equity securities on the trading price of the common shares and warrants of the Company; inability to retain key personnel; the risk of volatility in global financial conditions, as well as significant decline in general economic conditions; uncertainty of political stability in Nicaragua; uncertainty of the ability of Nicaragua to sell power to neighboring countries; economic insecurity in Nicaragua; and other development and operating risks, as well as those factors discussed in the section entitled "Risks and Uncertainties" in this MD&A. There may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. These factors are not intended to represent a complete list of the risk factors that could affect the Company. These factors should be considered carefully and readers of this MD&A should not place undue reliance on forward-looking information.

Such forward-looking information is based on a number of material factors and assumptions, including: the Company's historical financial and operating performance; that contracted parties provide goods and/or services on the agreed timeframes; the success and timely completion of planned exploration and expansion programs, including the Company's ability to comply with local, state and federal regulations dealing with operational standards and environmental protection measures; the Company's ability to negotiate and obtain PPAs on favorable terms; the Company's ability to obtain necessary regulatory approvals, permits and licenses in a timely manner; the availability of materials, components or supplies; the Company's ability to solicit competitive bids for drilling operations and obtain access to critical resources; the growth rate in net electricity consumption; continuing support and demand for non-hydroelectric renewables; continuing availability of government initiatives to support the development of renewable energy generation; the accuracy of volumetric reserve estimation methodology and probabilistic analysis used to estimate the quantity of potentially recoverable energy; environmental, administrative or regulatory barriers to the exploration and development of geothermal resources of the Company's properties; geological, geophysical, geochemical and other conditions at the Company's properties; the reliability of technical data, including extrapolated temperature gradient, geophysical and geochemical surveys and geothermometer calculations; the accuracy of capital expenditure estimates; availability of all necessary capital to fund exploration, development and expansion programs; the Company's competitive position; the ability of the Company to continue as a going concern and general economic conditions.

Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking information contained herein is provided as at the date of this MD&A and the Company disclaims any obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise, except as required by applicable laws. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information due to the inherent uncertainty therein.

Additional information about the Company, including the Company's AIF for the year ended December 31, 2016 is available on SEDAR at www.sedar.com and on the Company's website at www.polarisinfrastructure.com.