

# POLARIS

## **POLARIS INFRASTRUCTURE INC.**

### **Management's Discussion and Analysis**

**For the Three and Nine Months Ended September 30, 2018**

**November 6, 2018**

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## **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 three and nine months ended September 30, 2018, 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 unaudited interim condensed consolidated financial statements of the Company and the notes thereto for the three and nine months ended September 30, 2018, and the consolidated financial statements and MD&A for the year ended December 31, 2017. 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](http://www.sedar.com). Unless stated otherwise, the information in this MD&A is current as at November 6, 2018.

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, 2017 available on SEDAR at [www.sedar.com](http://www.sedar.com).

# POLARIS

## **POLARIS INFRASTRUCTURE INC.**

### **Management's Discussion and Analysis**

**For the Three and Nine Months Ended September 30, 2018**

**November 6, 2018**

---

## **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 geothermal project located in Nicaragua.

Polaris Infrastructure's mission is to be a Latin America-focused renewable power project developer and operator, while providing superior shareholder returns. Senior management has extensive experience in critical areas of renewable finance, 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 renewable energy properties which occurred during the three and nine months ended September 30, 2018 and to the date of this MD&A are discussed below.

### **Recent Developments**

#### San Jacinto Operations Commentary

The third quarter of 2018 saw record-level generation at the San Jacinto geothermal power plant (the "San Jacinto project"). Net power generation for the quarter was 144,411 MWh versus 125,125 MWh in the prior year quarter. This equates to average delivered power generation of 65.4 MW (net) versus 56.7 MW in the prior year quarter. The year over year increase reflects incremental steam flows from new production wells that were permanently connected in early May 2018, facilitated by the commissioning of a new separator station, HPS3, on pad 12.

Having achieved a relatively stable state of operations, with all geothermal wells connected and no additional drilling planned, the operational focus during the third quarter of 2018 was on optimization of above-ground infrastructure and equipment. Accordingly, the Company's operating subsidiary, Polaris Energy Nicaragua S.A. ("PENSA"), completed a unit 4 turbine condenser cleaning and repair exercise. We have seen improved operating performance of the unit 4 turbine following these works and will proceed with planned preventative maintenance overhaul of the unit 4 turbine in March 2019.

### **Quarterly Dividend**

On November 6, 2018, the Board authorized and declared the Company's eleventh quarterly dividend, namely a quarterly dividend of \$0.15 per outstanding common share. This dividend will be paid on November 26, 2018 to shareholders of record at the close of business on November 14, 2018.

The \$0.15 dividend per share related to the third quarter of 2018 equates to a payout ratio of approximately 32%. Considering the \$0.15 dividend related to the first two quarters of 2018, the year to date payout ratio is 38%, though this reflects the impact of downtime in the first quarter of 2018 associated with planned turbine maintenance.

# POLARIS

## **POLARIS INFRASTRUCTURE INC.**

### **Management's Discussion and Analysis**

**For the Three and Nine Months Ended September 30, 2018**

**November 6, 2018**

---

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. PENSA is not expected to be subject to Nicaragua income taxes until 2022-2023. The board of directors of Polaris Infrastructure remains committed to paying a quarterly dividend and will evaluate further dividend increases, viewed in light of planned capital investments.

## **OPERATING PROJECT**

### **San Jacinto-Tizate – San Jacinto, Nicaragua**

The Company, through its subsidiary, PENSA, owns and operates a geothermal facility with a nameplate capacity of approximately 77 MW. 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<sup>2</sup>.

PENSA has a 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 400,012 MWh (average 61.1 MW (net)) and 363,234 MWh (average 55.4 MW (net)) for the nine months ended September 30, 2018 and 2017, respectively. These production figures are net of all plant downtime, both planned and unplanned. For the nine months ended September 30, 2018 and 2017, the San Jacinto project generated revenue of \$50.5 million and \$44.5 million, respectively, and Adjusted EBIDTA of \$43 million and \$37.4 million, respectively. *See Use of Non-GAAP Performance Measures section below for reconciliation of Adjusted EBITDA to Total loss and comprehensive loss.*

As of September 30, 2018, the Company's consolidated cash position was \$39.9 million, of which \$12.4 million was held as debt service reserves. During the nine months ended September 30, 2018, PENSA repaid \$9.6 million of principal on its San Jacinto project credit facilities. As at September 30, 2018, PENSA had \$161.6 million outstanding on those credit facilities.

## **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"), an 85.5% owned subsidiary of the Company, was awarded the Casita project exploration concession with an area of 100 km<sup>2</sup>.

The Company has entered 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 can complete the contemplated financing, it would enable an exploration 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

# POLARIS

## **POLARIS INFRASTRUCTURE INC.**

### **Management's Discussion and Analysis**

**For the Three and Nine Months Ended September 30, 2018**

**November 6, 2018**

---

Bank and the Nicaraguan Ministry of Energy and Mines are ongoing, and we will provide further updates as appropriate.

As of September 30, 2018, the Company had \$11.6 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.

### **SUBSEQUENT EVENTS**

Any events occurring between September 30, 2018 and November 6, 2018 related to the Company's projects and operations are incorporated in the "Business Overview and Strategy" section above under the heading "Recent Developments."

Subsequent to the quarter ended September 30, 2018, the Company announced the acquisition of 100% of the issued and outstanding shares of Union Energy Group Corp. ("UEG"). Purchase consideration at closing consists of 600,000 common shares of the Company ("Shares") plus 300,000 warrants exercisable at a 20% premium to the closing Share price. Upon completion of certain project construction milestones, further purchase consideration of 600,000 Shares and \$396,000 in cash will become payable. UEG is an owner and developer of run-of-river hydro projects located in Peru.

# POLARIS

## POLARIS INFRASTRUCTURE INC.

### Management's Discussion and Analysis

For the Three and Nine Months Ended September 30, 2018

November 6, 2018

## FINANCIAL OVERVIEW

### Summary of Unaudited Quarterly Results

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

<i>(in thousands, except for earnings (loss) per share)</i>	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
Average production	65.4 MW (net)	63.7 MW (net)	53.9 MW (net)	57.8 MW (net)
Revenue	\$ 18,151	\$ 17,657	\$ 14,730	\$ 15,559
Direct cost of energy production	(7,562)	(7,469)	(7,060)	(7,164)
General and administrative expenses	(475)	(360)	(879)	(1,187)
Other operating costs	(52)	(36)	(83)	(84)
Adjusted EBITDA	15,538	15,138	12,348	12,958
Finance costs	(4,108)	(3,850)	(4,239)	(4,335)
Net earnings attributable to owners of the Company	3,980	3,910	512	752
Earnings per share (basic and diluted) attributed to owners of the Company	\$0.25	\$0.25	\$0.03	\$0.05
Cash	39,916	34,485	34,756	37,217
Restricted cash	1,507	1,505	1,509	1,509
Total equity attributable to Owners of the Company	189,104	187,442	185,850	187,624

<i>(in thousands, except for earnings (loss) per share)</i>	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
Average production	56.7 MW (net)	59.2 MW (net)	50.4 MW (net)	60.0 MW (net)
Revenue	\$ 15,266	\$ 15,913	\$ 13,368	\$ 15,694
Direct cost of energy production	(7,015)	(6,963)	(6,983)	(7,037)
General and administrative expenses	(800)	(1,320)	(952)	(851)
Other operating costs	(93)	(89)	(112)	(47)
Adjusted EBITDA	12,910	13,581	10,895	13,295
Finance costs	(4,356)	(4,354)	(4,296)	(4,340)
Net earnings (loss) attributable to owners of the Company	890	1,189	(1,167)	1,756
Earnings (loss) per share (basic and diluted) attributed to owners of the Company	\$0.06	\$0.08	(\$0.07)	\$0.11
Cash	40,887	43,999	48,378	45,739
Restricted cash	1,510	1,508	1,505	1,505
Total equity attributable to Owners of the Company	188,932	189,997	192,056	194,910

## Review of Results

### *Three months ended September 30, 2018 versus September 30, 2017*

During the three months ended September 30, 2018 and 2017, the San Jacinto project generated average production of 65.4 MW (net) and 56.7 MW (net), respectively. These production figures are net of all plant downtime, both planned and unplanned. The Company's revenue of \$18.2 million was up from \$15.3 million for the same period in 2017, principally as a result of incremental generation from two new production wells connected in the second quarter of 2018, and the 3% annual tariff increase effective for 2018.

Direct costs of energy production (other than depreciation and amortization) for the three months ended September 30, 2018 of \$1.8 million were slightly higher versus the same period in 2017, principally as a result of increased insurance costs. Depreciation and amortization expense associated with energy production (included in direct costs) for the three months ended September 30, 2018 of \$5.7 million was

# POLARIS

## POLARIS INFRASTRUCTURE INC.

### Management's Discussion and Analysis

For the Three and Nine Months Ended September 30, 2018

November 6, 2018

---

\$0.3 million higher than the same period in 2017, driven by the addition of new property, plant and equipment associated with the 2017/2018 drilling program and planned turbine maintenance.

General and administrative expenses for the three months ended September 30, 2018 decreased to \$0.5 million from \$0.8 million for the three months ended September 30, 2017, principally as a result of revaluation of the share-based compensation liability.

For the three months ended September 30, 2018, Adjusted EBITDA totaled \$15.5 million, as compared to \$12.9 million for the same period in 2017. The increase was principally the result of increased revenue from the San Jacinto plant. *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 September 30, 2018, finance costs of \$4.1 million were recognized, a decrease of \$0.3 million compared to the three months ended September 30, 2017, due to interest rate spread reductions achieved with the senior lenders, combined with ongoing decrease in debt balances.

The Company recognized net earnings of \$4 million for the three months ended September 30, 2018 compared to \$0.9 million for the same period in 2017. The period over period variance is driven by a \$2.9 million increase in revenue combined with a reduction in share-based compensation expense.

During the three months ended September 30, 2018, the Company incurred costs of \$0.5 million for additions to its exploration and development, geothermal properties and property, plant and equipment ("PP&E"), with only \$0.1 million of costs incurred related to San Jacinto drilling and infrastructure program and the balance related to general capital expenditure at the San Jacinto project.

#### *Nine months ended September 30, 2018 versus September 30, 2017*

During the nine months ended September 30, 2018 and 2017, the San Jacinto project generated average production of 61.1 MW (net) and 55.4 MW (net), respectively. These production figures are net of all plant downtime, both planned and unplanned. The Company's revenue of \$50.5 million was up from \$44.5 million for the same period in 2017, principally as a result of incremental generation from new production wells connected in 2018 and the 3% annual tariff increase effective for 2018.

Direct costs of energy production (other than depreciation and amortization) for the nine months ended September 30, 2018 of \$5 million was \$0.3 million higher than the same period in 2017, due to increased insurance costs. Depreciation and amortization expense associated with energy production (included in direct costs) for the nine months ended September 30, 2018 of \$17.1 million was \$0.8 million higher than the same period in 2017, driven by the addition of new property, plant and equipment associated with the 2017/2018 drilling program and planned turbine maintenance.

General and administrative expenses for the nine months ended September 30, 2018 decreased to \$1.7 million from \$3.1 million for the nine months ended September 30, 2017, principally as a result of a \$1.5 million decrease in share-based compensation expense.

For the nine months ended September 30, 2018, Adjusted EBITDA totaled \$43 million, as compared to \$37.4 million for the same period in 2017. The increase was the result of higher revenue from the San

# POLARIS

## POLARIS INFRASTRUCTURE INC.

### Management's Discussion and Analysis

For the Three and Nine Months Ended September 30, 2018

November 6, 2018

Jacinto plant. *See Use of Non-GAAP Performance Measures section below for reconciliation of Adjusted EBITDA to Total loss and comprehensive loss.*

For the nine months ended September 30, 2018, finance costs of \$12.2 million were recognized, a decrease of \$0.8 million compared to the nine months ended September 30, 2017. The decrease is largely because of revised estimates of future cash outflows to the project lenders in connection with the return enhancement payable to the subordinated lenders, as well as reductions in interest rate spread and the continuing reduction in loan principal balance.

The Company recognized net earnings of \$8.4 million for the nine months ended September 30, 2018 compared to net earnings of \$0.9 million for the same period in 2017. The period over period variance is driven by a \$6 million increase in revenue, combined with the reduction in share-based compensation (included within general and administrative expenses).

During the nine months ended September 30, 2018, the Company incurred costs of \$5.7 million for additions to its exploration and development, geothermal properties and PP&E with \$4 million of costs incurred related to drilling activities at the San Jacinto project, \$0.7 million related to turbine maintenance activities, and the balance related to general capital expenditures at 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.

<i>(in thousands)</i>	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net earnings and comprehensive earnings (loss) attributable to Owners of the Company	\$ 3,980	\$ 890	\$ 8,402	\$ 911
Add (deduct):				
Net earnings (loss) attributable to non-controlling interest	30	(16)	62	(1)
Current and deferred tax expense	1,938	2,050	6,000	6,230
Finance costs	4,108	4,356	12,197	13,006
Interest income	(247)	(178)	(539)	(417)
Other losses	254	257	439	491
Depreciation and amortization of plant assets	5,721	5,443	17,056	16,240
Share-based compensation	(246)	108	(594)	924
Adjusted EBITDA	\$ 15,538	\$ 12,910	\$ 43,023	\$ 37,384

# POLARIS

## POLARIS INFRASTRUCTURE INC.

### Management's Discussion and Analysis

For the Three and Nine Months Ended September 30, 2018

November 6, 2018

## LIQUIDITY AND CAPITAL RESOURCES

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

<i>(in thousands)</i>	Nine Months Ended	
	September 30, 2018	September 30, 2017
Net cash from (used in)		
Operating activities	\$ 29,387	\$ 25,830
Investing activities	(10,083)	(17,498)
Financing activities	(16,610)	(13,175)
Foreign exchange gain on cash held in foreign currency	5	(9)
Increase (decrease) in cash	\$ 2,699	\$ (4,852)

### Operating Activities

Net cash from operating activities for the nine months ended September 30, 2018 of \$29.4 million increased by \$3.6 million from the same period in 2017. The increase resulted primarily from increased operating income. The period over period change is not attributable to seasonal fluctuations.

### Investing Activities

Net cash used in investing activities during the nine months ended September 30, 2018 of \$10.1 million decreased \$7.4 million compared to the same period in 2017. The decreased use of cash principally relates to costs incurred in the first nine months of 2017 related to the 2017/2018 drilling program.

### Financing Activities

Net cash used in financing activities for nine months ended September 30, 2018 of \$16.6 million increased \$3.4 million from the same period in 2017. The increased use of cash relates to increased mandatory repayment associated with the San Jacinto project credit facilities, combined with the increase in dividends paid in the nine months ended September 30, 2018.

### 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 September 30, 2018:

# POLARIS

## POLARIS INFRASTRUCTURE INC.

### Management's Discussion and Analysis

For the Three and Nine Months Ended September 30, 2018

November 6, 2018

<i>(in thousands)</i>	Less than 1			More than 5	
	Year	1-3 Years	4-5 Years	Years	Total
Accounts payable and accrued liabilities	\$ 5,689	\$ -	\$ -	\$ -	\$ 5,689
Debt, current and long-term	14,100	33,172	40,741	74,488	162,501
Interest obligations	11,904	20,565	14,929	13,973	61,371
	\$ 31,693	\$ 53,737	\$ 55,670	\$ 88,461	\$ 229,561

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

<i>(in \$ thousands)</i>	
2018	2,964
2019	13,709
2020	16,203
2021	18,055
2022	19,908
2023	21,760
2024	16,898
2025	14,703
2026	13,811
2027	14,534
2028	7,717
2029	1,384
Total	\$ 161,646

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

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 November 6, 2018, the Company had 15,678,299 common shares outstanding.

As of November 6, 2018, there were 678,108 outstanding stock options, with a weighted average exercise price of Cdn\$16.16 and 3.9 years remaining contractual life. The outstanding stock options' exercise prices range from Cdn\$10.00 to Cdn\$16.89 and expire from May 2020 to December 2022. Of the outstanding stock options, 197,522 are exercisable. The Company had 159,132 restricted shares outstanding as of November 6, 2018. The Company had 4,839 deferred shares outstanding as of November 6, 2018, none of which had vested.

# POLARIS

## **POLARIS INFRASTRUCTURE INC.**

### **Management's Discussion and Analysis**

**For the Three and Nine Months Ended September 30, 2018**

**November 6, 2018**

---

## **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, 2018. For details with respect to the adoption of new accounting standards and those issued but not yet effective please refer to Note 3 of the interim condensed consolidated financial statements of the Company and the notes thereto for the period ended September 30, 2018.

### **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.

## **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 September 30, 2018.

### **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:

# POLARIS

## **POLARIS INFRASTRUCTURE INC.**

### **Management's Discussion and Analysis**

**For the Three and Nine Months Ended September 30, 2018**

**November 6, 2018**

---

- (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, 2017 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](http://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.

# POLARIS

## **POLARIS INFRASTRUCTURE INC.**

### **Management's Discussion and Analysis**

**For the Three and Nine Months Ended September 30, 2018**

**November 6, 2018**

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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.

# POLARIS

## **POLARIS INFRASTRUCTURE INC.**

### **Management's Discussion and Analysis**

**For the Three and Nine Months Ended September 30, 2018**

**November 6, 2018**

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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, 2017 is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.polarisinfrastructure.com](http://www.polarisinfrastructure.com).