

Unaudited Interim Condensed Consolidated Financial Statements of

Polaris Infrastructure Inc.

September 30, 2020 and 2019

(Expressed in Thousands of United States dollars)

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

	Note Ref	As at September 30, 2020	As at December 31, 2019
Assets			
Current assets			
Cash		\$ 58,627	\$ 32,597
Accounts receivable	9	15,639	15,302
Prepaid expenses		1,108	783
		<u>75,374</u>	<u>48,682</u>
Restricted cash	11	1,897	5,941
Other assets, net	10	10,033	7,757
Construction in progress	12	1,128	1,378
Property, plant and equipment, net	13	353,649	370,459
Intangible assets, net	14	24,664	25,678
Deferred tax asset, net		3,729	3,849
Total assets		<u>\$ 470,474</u>	<u>\$ 463,744</u>
Liabilities and Total Equity			
Current liabilities			
Accounts payable and accrued liabilities	15	10,925	17,878
Current portion of long-term debt, net	16	20,592	16,917
Current portion of lease liabilities	22	206	252
		<u>31,723</u>	<u>35,047</u>
Non-current liabilities			
Long-term debt, net	16	172,423	166,754
Conversion option liability		3,835	1,293
Warrant liability	18	447	278
Contingent liabilities		6,269	6,580
Lease Liabilities	22	552	629
Decommissioning liabilities	17	2,221	2,168
Deferred tax liability, net		48,136	43,769
Total liabilities		<u>265,606</u>	<u>256,518</u>
Non-controlling interests	19	(1,976)	(2,007)
Equity attributable to the owners of the Company			
Share capital	19	598,982	598,982
Contributed surplus	19	19,689	19,623
Accumulated deficit		(411,827)	(409,372)
Total equity attributable to the owners of the Company		<u>206,844</u>	<u>209,233</u>
Total equity		<u>204,868</u>	<u>207,226</u>
Total liabilities and total equity		<u>\$ 470,474</u>	<u>\$ 463,744</u>

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

Polaris Infrastructure Inc.

Consolidated Statements of Operations and Comprehensive Earnings

(expressed in thousands of United States dollars)

	Note	Three Months Ended		Nine Months Ended	
		September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Revenue	4	\$ 17,054	\$ 17,586	\$ 56,249	\$ 53,456
Direct costs					
Direct costs	6	(2,955)	(2,049)	(7,566)	(5,482)
Depreciation and amortization of plant assets	6	(6,396)	(5,749)	(19,203)	(17,535)
General and administrative expenses	6	(1,094)	(970)	(3,855)	(3,709)
Impairment loss	12	-	-	-	(11,564)
Other operating costs		(20)	(120)	(136)	(313)
Operating income		6,589	8,698	25,489	14,853
Interest income		154	351	304	867
Finance costs	7	(4,117)	(4,812)	(13,236)	(13,506)
Other gains (losses)	8	(646)	420	(3,379)	345
Earnings and comprehensive earnings before income taxes		1,980	4,657	9,178	2,559
Income tax expense		(658)	(1,886)	(4,490)	(5,030)
Total earnings (loss) and comprehensive earnings (loss)		\$ 1,322	\$ 2,771	\$ 4,688	\$ (2,471)
Total earnings (loss) and comprehensive earnings (loss) attributable to:					
Owners of the Company		\$ 1,322	\$ 2,771	\$ 4,657	\$ (818)
Non-controlling interests		\$ -	\$ -	\$ 31	\$ (1,653)
Basic earnings (loss) per share	19	\$ 0.08	\$ 0.18	\$ 0.30	\$ (0.05)
Diluted earnings per share	19	\$ 0.08	\$ 0.17	\$ 0.28	\$ (0.05)

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

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

	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, 2019		15,678,299	598,792	19,496	(414,445)	203,843	(354)	203,489
Share-based compensation	19	28,000	190	87	-	277	-	277
Dividends paid		-	-	-	(7,067)	(7,067)	-	(7,067)
Total earnings and comprehensive earnings		-	-	-	(945)	(945)	(1,653)	(2,598)
Balance at September 30, 2019		15,706,299	598,982	19,583	(422,457)	196,108	(2,007)	194,101
Share-based compensation	19	-	-	40	-	40	-	40
Dividends paid		-	-	-	(2,356)	(2,356)	-	(2,356)
Total earnings and comprehensive earnings		-	-	-	15,441	15,441	-	15,441
Balance at December 31, 2019		15,706,299	598,982	19,623	(409,372)	209,233	(2,007)	207,226
Share-based compensation	19	-	-	66	-	66	-	66
Dividends paid		-	-	-	(7,067)	(7,067)	-	(7,067)
Total earnings and comprehensive earnings		-	-	-	4,612	4,612	31	4,643
Balance at September 30, 2020		15,706,299	598,982	19,689	(411,827)	206,844	(1,976)	204,868

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

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

	Nine Months Ended	
	September 30, 2020	September 30, 2019
Net inflow (outflow) of cash related to the following activities		
Operating		
Total earnings (loss) and comprehensive earnings (loss) attributable to owners of the Company	\$ 4,657	\$ (818)
Add/(Deduct) items not affecting cash:		
Non-controlling interests in net loss of subsidiary	31	(1,653)
Deferred income tax expense	4,490	5,030
Finance costs recognized	11,444	11,757
Depreciation and amortization	18,764	17,559
Accretion of decommissioning liability	12	59
Change in decommissioning liabilities	41	70
Loss on valuation of warrant liabilities	169	396
Gain on valuation of contingent liabilities	(311)	305
Loss on valuation of conversion option liability	2,542	(804)
Write-down of property, plant and equipment	-	11,564
Accretion on debt	932	839
Share-based compensation	205	617
Unrealized foreign exchange loss	156	243
Changes in non-cash working capital:		
Accounts receivable	(337)	736
Prepaid expenses	(2,263)	(270)
Accounts payable and accrued liabilities	(1,548)	(3,059)
Interest and return enhancement paid	(8,315)	(11,051)
Additions to other assets	(529)	152
	30,140	31,672
Investing		
Change in restricted cash	4,044	3,855
Additions to other assets	-	2,318
Additions to construction in progress	(5,518)	(34,584)
Additions to property, plant and equipment	(749)	(745)
	(2,223)	(29,156)
Financing		
Proceeds from debt issuance (Note 16)	22,457	-
Proceeds from debenture (Note 16)	-	17,579
Dividends paid	(7,067)	(7,067)
Repayment of debt	(17,158)	(10,783)
Lease payments	(123)	-
	(1,891)	(271)
Foreign exchange loss on cash held in foreign currency	4	48
Net (decrease) / increase in cash	26,030	2,293
Cash, beginning of the period	32,597	37,809
Cash, end of the period	\$ 58,627	\$ 40,102

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

Polaris Infrastructure Inc.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2020 and 2019 (unaudited)

(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 Nicaraguan Ministry of Energy and Mines to develop and operate the San Jacinto Project.

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

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

2. Basis of presentation

These unaudited interim condensed consolidated 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, 2019.

These unaudited interim condensed consolidated financial statements have been prepared on a going concern basis, using historical cost convention, except for derivative financial instruments, which are measured at fair value. The Company's assets under development and construction are recorded as construction in progress and are measured at cost unless impaired or designated to be sold, at which time they are measured at the recoverable amount.

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

These unaudited interim condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company (the "Board") on November 4, 2020.

3. Summary of significant accounting policies

Principles of consolidation

These unaudited interim condensed consolidated financial statements include the accounts of the Company and its controlled subsidiaries. Intercompany balances and transactions are eliminated upon consolidation.

These interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as the annual consolidated financial statements of the Company for the year ended December 31, 2019, as presented in Note 3 to the audited consolidated financial statements.

Polaris Infrastructure Inc.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2020 and 2019 (unaudited)

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

COVID-19 Pandemic

The Company's top priority has always been the health and safety of the Company's employees, contractors and the communities where it operates. After the World Health Organization ("WHO") declared COVID-19 a pandemic on March 11, 2020, the Company activated its safety protocols and crisis response plans in the facilities and offices in Peru, Nicaragua and Canada, and implemented preventive measures including restricting business travel and arranging our corporate and local offices to work from home. While transitioning to work from home caused some delays in preparing and processing accounting and administrative records, it did not impact continuity of our operations. Screening procedures and visitor restrictions were implemented at each of the facilities and employees were provided guidance regarding social distancing and routine temperature checks to ensure a safe environment for operations. All these measures were taken to ensure continuity of operations as the Company provides an essential service.

The Company continued to manage COVID-19 protocols through the three months ended September 30, 2020, as the pandemic continued to present significant challenges to social and economic infrastructure worldwide. The Company has extended its mandates on social distancing, use of masks, appropriate testing of staff and reduced staffing where possible within the operating regions. As well, the pandemic did restrict The Company's ability to restore operations at the El Carmen facility in Peru and put additional working capital pressures on local governments in terms of timing of settlement of payables related to energy sales, to power producers.

The facilities and operations in Peru and Nicaragua, as well as the head office in Toronto have not been significantly impacted by COVID-19 and are operating without major issues. Further, operations have not been materially affected from changes to the supply chain as a result of the different restrictions that local governments have put in place to date. However, given the unpredictable nature of the situation, no guarantee can be made that COVID-19 will not impact the Company's operations in the future and the Company continues to closely monitor events and actions taken by the local government, including those affecting vendors, supply chain, customers and collection of accounts receivable, to determine their potential impact, and any additional actions required to ensure that operations continue without major disruption.

Post the onset of the COVID-19 pandemic in March 2020 there has been increased volatility in credit markets which could impact discount rates used in our impairment tests for The Company's CGUs. Although the assets were not impaired at September 30, 2020, the length and extent of a continued COVID-19 pandemic is uncertain and could impact these estimates and the carrying value of assets in future periods.

4. Revenue

Revenue earned from the sale of energy and carbon credits, by facility, is summarized in the following table:

Project	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Nicaragua				
San Jacinto (Geothermal)	\$ 15,842	\$ 17,224	\$ 51,442	\$ 52,315
Peru				
Canchayllo (Hydroelectric)	528	362	1,193	1,141
Generación Andina (Hydroelectric)	671	-	3,574	-
Carbon Credits - Canchayllo	13	-	40	-
	\$ 17,054	\$ 17,586	\$ 56,249	\$ 53,456

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. ("Disсур").

For Peru, under the terms of the PPAs, the Company bills at the spot rate for current energy generation. The difference between the spot rate and the PPA rate is calculated annually each May for the previous 12 months and is paid evenly over the following 12 months. The Company recognizes revenue at the PPA rate and records the accrued revenue in connection with the difference between the PPA rate and the spot rate in Other assets

Polaris Infrastructure Inc.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2020 and 2019 (unaudited)

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

(Note 10). The total accrued revenue as of September 30, 2020 and 2019 was \$2.0 million and \$0.2 million, respectively.

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. Notes 9 and 10 to these financial statements provides details on the Company's contract balances related to this revenue.

5. 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 in Peru. The Company's chief operating decision maker evaluates the performance of the Company's reportable operating segments, and makes recommendations to the Board to allocate available resources based on various criteria, including the availability of proven resources, costs of development, availability of financing, actual and expected financial performance, and existing debt covenants.

The reported segment earnings, including revenue and expenses, as well as assets and liabilities are presented below. Other expenses, assets and liabilities not related to the Company's reportable operating segments are part of corporate headquarters and other North America projects, which are not considered reportable operating segments, but are presented below for reconciliation purposes to the Company's total loss, revenue, expenses, assets and liabilities in these interim condensed consolidated financial statements.

For the Three Months Ended September 30,	Nicaragua		Peru		Other	
	2020	2019	2020	2019	2020	2019
Revenue	\$ 15,842	\$ 17,224	\$ 1,212	\$ 362	\$ -	\$ -
Direct costs						
Direct costs	(1,628)	(1,890)	(1,327)	(159)	-	-
Depreciation and amortization of plant assets	(5,592)	(5,752)	(804)	3	-	-
General and administrative expenses	(388)	(382)	(86)	(211)	(620)	(377)
Other operating costs	-	-	-	-	(20)	(120)
Operating income	8,234	9,200	(1,005)	(5)	(640)	(497)
Interest income	85	217	-	-	69	134
Finance costs	(2,868)	(3,978)	(640)	(287)	(609)	(547)
Other gains (losses)	(159)	(14)	(37)	(87)	(450)	521
Earnings (loss) and comprehensive earnings (loss) before income taxes	5,292	5,425	(1,682)	(379)	(1,630)	(389)
Income tax expense	(1,062)	(1,654)	404	(232)	-	-
Total earnings and comprehensive earnings	\$ 4,230	\$ 3,771	\$ (1,278)	\$ (611)	\$ (1,630)	\$ (389)

Polaris Infrastructure Inc.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2020 and 2019 (unaudited)

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

For the Nine Months Ended September 30,	Nicaragua		Peru		Other	
	2020	2019	2020	2019	2020	2019
Revenue	\$ 51,442	\$ 52,315	\$ 4,807	\$ 1,141	\$ -	\$ -
Direct costs						
Direct costs	(4,745)	(5,153)	(2,821)	(329)	-	-
Depreciation and amortization of plant assets	(16,798)	(17,271)	(2,405)	(264)	-	-
General and administrative expenses	(1,168)	(1,141)	(627)	(531)	(2,060)	(2,037)
Impairment loss	-	(11,564)	-	-	-	-
Other operating costs	-	-	-	-	(136)	(313)
Operating income	28,731	17,186	(1,046)	17	(2,196)	(2,350)
Interest income	176	548	—	—	128	319
Finance costs	(9,556)	(11,919)	(2,057)	(651)	(1,623)	(936)
Other gains (losses)	(256)	(339)	442	777	(3,565)	(93)
Earnings (loss) and comprehensive earnings (loss) before income taxes	19,095	5,476	(2,661)	143	(7,256)	(3,060)
Income tax expense	(4,365)	(5,155)	(125)	125	-	-
Total earnings and comprehensive earnings	\$ 14,730	\$ 321	\$ (2,786)	\$ 268	\$ (7,256)	\$ (3,060)

	Nicaragua		Peru		Other	
	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
Total non-current assets	\$ 290,163	\$ 306,400	\$ 103,153	\$ 106,201	\$ 1,784	2,461
Total assets	337,128	345,384	106,604	107,308	26,742	11,052
Total liabilities	184,455	193,227	50,897	36,313	30,254	26,978

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

Revenue	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Nicaragua	15,842	17,224	\$ 51,442	\$ 52,315
Peru	1,212	362	\$ 4,807	\$ 1,141
	\$ 17,054	\$ 17,586	\$ 56,249	\$ 53,456

Comprehensive earnings (loss) before income taxes	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Other	\$ (1,630)	\$ (388)	\$ (7,309)	\$ (3,060)
Nicaragua	5,292	5,425	19,094	5,477
Peru	(1,682)	(380)	(2,607)	142
	\$ 1,980	\$ 4,657	\$ 9,178	\$ 2,559

Polaris Infrastructure Inc.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2020 and 2019 (unaudited)

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

	As at September 30, 2020		As at December 31, 2019	
Assets and liabilities				
Other	\$	26,741	\$	11,052
Nicaragua		337,128		345,384
Peru		106,605		107,308
Total assets	\$	470,474	\$	463,744
Other	\$	1,783	\$	2,461
Nicaragua		290,163		306,400
Peru		103,154		106,201
Total non-current assets	\$	395,100	\$	415,062
Other	\$	30,253	\$	26,978
Nicaragua		184,455		193,227
Peru		50,898		36,313
Total liabilities	\$	265,606	\$	256,518

6. General and administrative and other expenses

(a) Direct costs

Direct costs related to the production of energy consist of the following:

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Depreciation and amortization	\$ 6,396	\$ 5,749	\$ 19,203	\$ 17,535
Employee costs	1,065	789	2,509	2,395
General liability insurance	475	371	1,351	749
Land, building and other Municipal and Federal Taxes	361	376	1,020	1,076
Maintenance	864	502	2,139	1,225
Other direct costs	190	11	547	37
	\$ 9,351	\$ 7,798	\$ 26,769	\$ 23,017

(b) General and administrative expenses

The Company's general and administrative expenses for the three and nine months ended September 30, 2020 and 2019 consisted of:

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Salaries and benefits	\$ 444	\$ 508	\$ 1,636	\$ 1,482
Share-based compensation	(30)	(165)	223	435
Facilities and support	64	205	289	466
Professional fees	432	271	1,185	951
Insurance	70	129	280	304
Depreciation of other assets	55	13	174	38
Other general and administrative expenses	18	9	27	33
Net general and administrative expenses	\$ 1,053	\$ 970	\$ 3,814	\$ 3,709
Total allocation to exploration and development and geothermal properties	41	-	41	-
	1,094	970	3,855	3,709

Polaris Infrastructure Inc.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2020 and 2019 (unaudited)

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

7. Finance costs

The Company's finance costs for the three and nine months ended September 30, 2020 and 2019 consisted of:

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Interest on debt	\$ 3,552	\$ 4,060	\$ 11,444	\$ 11,768
Accretion on debt	383	273	932	839
Accretion of decommissioning liabilities	2	17	12	59
Banking fees and other finance costs	180	462	848	840
	\$ 4,117	\$ 4,812	\$ 13,236	\$ 13,506

Cash paid for interest and return enhancement during the three months ended September 30, 2020 and 2019 was \$2.5 million and \$3.6 million, respectively. Cash paid for interest and return enhancement during the nine months ended September 30, 2020 and 2019 was \$8.3 million and \$10.8 million, respectively.

8. Other gains and (losses)

The Company's other gains and (losses) for the three and nine months ended September 30, 2020 and 2019 consisted of:

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Foreign exchange losses	\$ (1,142)	\$ (428)	\$ (589)	\$ (695)
Gain (loss) on valuation of warrant liabilities (Note 19)	198	(125)	(169)	(396)
Loss on valuation of contingent liabilities	(110)	(104)	(311)	(305)
Gain (loss) on valuation of conversion option liability (Note 16)	730	1,074	(2,542)	804
Other (losses) gains	(322)	3	232	937
	\$ (646)	\$ 420	\$ (3,379)	\$ 345

9. Accounts receivable

	September 30, 2020	December 31, 2019
Nicaragua		
San Jacinto (Geothermal)	\$ 15,596	\$ 15,177
Peru		
Canchayllo (Hydroelectric)	19	109
Generación Andina (Hydroelectric)	24	16
	\$ 15,639	\$ 15,302

The Company's accounts receivable as of September 30, 2020 and December 31, 2019 are mainly comprised of balances due to the Nicaraguan subsidiary by its customers, Disnorte and Dissur, which have 45 days term from invoice date.

For Peru, the Company has 30 days term from invoice date. The Company is paid the spot rate within 30 days of the invoice date for power generated from the Canchayllo and Generación Andina projects and is paid the difference between the PPA rate and the spot rate for the contracted energy one year after generation. The receivable for this difference is included in Other assets.

The Company assessed the risk of credit losses for its accounts receivable and concluded it is immaterial, therefore it has not recorded an allowance for doubtful amounts. Please refer to Note 23 (e) for details.

Polaris Infrastructure Inc.

Notes to the Interim Condensed Consolidated Financial Statements

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

10. Other assets, net

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

	September 30, 2020	December 31, 2019
Recoverable taxes	\$ 6,056	\$ 5,400
Debentures receivable	627	607
Investment in affiliate	164	169
Others	332	360
Accrued revenue (note 4)	2,008	296
Fixed assets, net	122	74
Right-of-use-asset, net	724	851
	\$ 10,033	\$ 7,757

As of September 30, 2020, Recoverable taxes include \$4.9 million of VAT receivable (2019 - \$4.2 million) in Peru, which will be applied against VAT payable from the sale of power by our Generación Andina and Canchayllo projects. Accrued revenue relates to revenue from the sale of power by our Peruvian subsidiaries, discussed in Note 4.

Right-of-use-asset includes \$0.5 million for a right to use land agreement, and \$0.4 million for lease of office space, which are amortized over the term of the corresponding leases:

	September 30, 2020	December 31, 2019
Opening balance	\$ 1,024	\$ 1,024
Additions/(disposals)	(97)	-
Accumulated Amortization	(203)	(173)
Ending balance as of	\$ 724	\$ 851

11. Restricted cash

	September 30, 2020	December 31, 2019
San Jacinto guarantees	\$ 1,080	\$ 1,080
Peru guarantees and bonds	455	4,495
Reclamation bonds - US and Canada	362	366
	\$ 1,897	\$ 5,941

In addition to the amounts recorded as restricted cash described above, cash in the amount of \$30.3 million and \$23.1 million held by the Company as at September 30, 2020 and December 31, 2019, respectively, is restricted for use in the San Jacinto project and governed by the terms of the Trust and the Credit Agreements, where the process to withdraw is considered perfunctory to the agreement, as long as the required covenants and balances are met. The Credit Agreements require certain amounts to be held in reserve for future debt service as well as for future investment in the San Jacinto project through the major maintenance reserve account. Therefore, as these amounts are demand deposits that are held for the purpose of meeting short-term cash commitments of the San Jacinto project, the Company considers them as available cash, since they are available for current use.

12. Construction in progress

The Company has the following properties under development.

	December 31, 2019	2020 Write-off	2020 Activity	2020 Transfers to PP&E	September 30, 2020
San Jacinto Binary Plant	1,160	-	(36)	-	1,124
Canchayllo improvements	25	-	(25)	-	-
San Jacinto Drilling Costs	193	-	-	(189)	4
	\$ 1,378	\$ -	\$ (61)	\$ (189)	\$ 1,128

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

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

13. Property, plant and equipment, net

The following is a summary of the activity related to the Company's property, plant and equipment:

	December 31, 2019	2020 Activity	2020 Transfers from CIP	September 30, 2020
San Jacinto geothermal project	\$ 520,338	\$ 32	\$ 189	\$ 520,559
Canchayllo hydroelectric project	10,084	(20)	-	10,064
Generación Andina hydroelectric projects	62,943	160	-	63,103
Accumulated depreciation	(226,952)	(17,559)	-	(244,511)
Other assets	-	246	-	246
Capital spares	4,046	142	-	4,188
	\$ 370,459	\$ (16,999)	\$ 189	\$ 353,649

	December 31, 2018	2019 Activity	2019 Transfers from CIP	December 31, 2019
San Jacinto geothermal project	\$ 518,730	\$ 919	\$ 689	\$ 520,338
Canchayllo hydroelectric project	10,037	47	-	10,084
Generación Andina hydroelectric projects	-	-	62,943	62,943
Accumulated depreciation	(203,988)	(22,964)	-	(226,952)
Capital spares	4,037	9	-	4,046
	\$ 328,816	\$ (21,989)	\$ 63,632	\$ 370,459

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 \$19.2 million and \$17.5 million for the nine months ended September 30, 2020 and 2019, and of \$6.4 million and \$5.7 million for the three months ended September 30, 2020 and 2019, respectively, was recorded in the consolidated statements of operations and comprehensive loss.

14. Intangible assets

	December 31, 2019	2020 Activity	2020 Amortization	September 30, 2020
San Jacinto transmission assets	\$ 3,559	\$ -	\$ (157)	\$ 3,402
Canchayllo PPA	2,441	-	(122)	2,319
Generación Andina PPA	19,678	-	(735)	18,943
	\$ 25,678	\$ -	\$ (1,014)	\$ 24,664

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	December 31, 2018	2019 Activity	2019 Amortization	December 31, 2019
San Jacinto transmission assets	\$ 3,768	\$ -	\$ (209)	\$ 3,559
Canchayllo PPA	2,604	-	(163)	2,441
Generación Andina PPA	19,718	-	(40)	19,678
	<u>\$ 26,090</u>	<u>\$ -</u>	<u>\$ (412)</u>	<u>\$ 25,678</u>

Amortization expense related to the transmission assets for the San Jacinto project donated to the Nicaraguan utility, ENATREL in December 2011, was \$0.05 million and \$0.2 million for the three and nine months ended September 30, 2020, respectively. Amortization expense related to the Canchayllo PPA intangible asset for the nine months ended September 30, 2020 and 2019 was \$0.1 million, respectively. Amortization expense related to the Generación Andina PPA intangible asset for the three and nine months ended September 30, 2020 was \$0.3 million and \$0.7 million, respectively, and \$nil for the three and nine months ended September 30, 2019, respectively.

15. Accounts payable and accrued liabilities

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

	September 30, 2020	December 31, 2019
Trade payables	\$ (100)	\$ 1,431
Construction payables	2,098	2,516
Construction accrued liabilities	792	6,097
Share-based compensation liability	1,548	1,409
Interest payable	391	415
Withholding tax and other tax payable	863	505
Other accrued liabilities	5,333	5,505
	<u>\$ 10,925</u>	<u>\$ 17,878</u>

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16. Long-term debt, net

	Phase I Senior Debt	Phase I Subordinated Debt	Phase II Senior Debt	Phase II Subordinated Debt	Total Phase I and Phase II Debt	Canchayllo Debt	APG Debt	Generación Andina Debt	PIF Debenture	Total
Loans and other borrowings – December 31, 2019	\$ 29,166	\$ 11,471	\$ 87,367	\$ 16,661	\$ 144,665	\$ 4,352	\$ -	\$ 19,732	\$ 14,922	\$ 183,671
Accrued interest expense	-	-	-	-	-	-	-	1,271	-	1,271
Deferred transaction costs	-	-	-	-	-	-	(4,543)	-	-	(4,543)
Proceed from loan	-	-	-	-	-	-	27,000	-	-	27,000
Return enhancement	-	(4)	-	64	60	-	-	-	-	60
Accretion of deferred transaction costs and debt discount	274	-	485	-	759	-	174	-	1,601	2,534
Repayments of debt	(4,055)	(991)	(6,252)	(855)	(12,153)	(4,352)	-	-	(629)	(17,134)
Effect of foreign exchange on loans	-	-	-	-	-	-	-	-	156	156
Loans and other borrowings – September 30, 2020	\$ 25,385	\$ 10,476	\$ 81,600	\$ 15,870	\$ 133,331	\$ -	\$ 22,631	\$ 21,003	\$ 16,050	\$ 193,015
Current	\$ 6,143	\$ 1,431	\$ 8,817	\$ 1,201	\$ 17,592	\$ -	\$ 1,000	\$ 2,000	\$ -	\$ 20,592
Non-current	19,242	9,045	72,783	14,669	115,739	-	21,631	19,003	16,050	172,423
Unamortized debt discount/return enhancement	706	(1,777)	2,713	(2,152)	(510)	-	4,369	22,964	3,714	30,537
Principal balance	\$ 26,091	\$ 8,699	\$ 84,313	\$ 13,718	\$ 132,821	\$ -	\$ 27,000	\$ 43,967	\$ 19,764	\$ 223,552
Maturity date	12/15/2024	12/15/2025	12/15/2028	6/15/2029		3/31/2025	6/5/2028	6/15/2038	5/31/2024	

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Phase I Facility				
Interest recorded as financing cost	\$ 1,531	\$ 2,083	\$ 2,434	\$ 3,183
Accretion recorded as financing cost	178	207	274	316
Phase II Facility				
Interest recorded as financing cost	3,605	4,860	5,742	7,390
Accretion recorded as financing cost	320	347	485	524
Canchayllo Debt				
Interest recorded as financing cost	100	(99)	199	324
Generación Andina Debt				
Interest recorded as financing cost	857	-	1,271	-
APG Debt				
Interest recorded as financing cost	134	-	134	-
Accretion recorded as financing cost	174	-	174	-
Debentures				
Interest recorded as financing cost	1,075	860	1,601	860
Total				
Interest recorded as financing cost	\$ 7,302	\$ 7,704	\$ 11,381	\$ 11,757
Accretion recorded as financing cost	672	553	933	839

(a) Credit agreements

Summary of Phase I and Phase II Credit Agreements

As at September 30, 2020 and December 31, 2019, interest rates on the Phase I and Phase II senior facilities were LIBOR + 5.5%, resulting in 5.75% and 7.39% of interest, respectively. Interest on Phase I and Phase II Subordinated Debt is fixed at 6% annually, respectively.

All debt drawn on the Phase I and II Credit Agreements is non-recourse to the Company and all of its subsidiaries other than PENSA and SJPIC.

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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.

A \$22.0 million initial advance was drawn on June 5, 2020, from which the Company was required to prefund the first debt service balance of \$2.3 million, due in December 2020. The terms also included the refinancing of the Canchayllo Credit Agreement, which was repaid on June 30, 2020. Brookfield has also been granted senior security on the Canchayllo project and second security on the El Carmen and 8 de Agosto projects. On July 17, 2020, the Company completed the subsequent advance, in the amount of \$5.0 million.

In addition to the \$2.3 million prefund payment, the Company incurred approximately \$2.2 million in costs to complete the transaction. The effective interest rate at September 30, 2020 is estimated as 11.37%.

Summary of Canchayllo Credit Agreement

Prior to the early repayment of the Canchayllo credit facility, interest rates ranged from 5.38% to 8.65%. Approximately 62% of the outstanding principal of the loan at the time bore fixed interest rates of 8.65% and 7.6%, and the remainder bore interest at the 3 Month Libor rate plus 5.00%. The loans were originally due to mature in March 2025 and principal and interest was paid quarterly. On June 30, 2020 the Company, through its subsidiary EGECSAC repaid the outstanding balance of the loan for a total of \$4.0 million, corresponding to its principal and interest.

Summary of Generación Andina Credit Agreement

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

The Company recorded the loan at its fair value using a market rate of interest and recognized a debt discount in the amount of \$19.0 million as at October 30, 2018, which is accreted over the term of the loan. As of September 30, 2020, interest expense of \$1.3 million was recognized in connection with the GA loan (2019 - \$1.2 million capitalized interest).

Summary of Debentures

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

The Company has the option to satisfy its obligations to pay on redemption or maturity, the principal amount on the Debentures, in whole or in part, by delivering shares of the Company. Any accrued and unpaid interest will be paid in cash. The Debentures are redeemable after May 31, 2022 and prior to May 31, 2023, in whole

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or in part at the Company's option at par plus accrued interest and unpaid interest, provided the weighted average trading price of the Common Shares on the Toronto Stock Exchange during the 20 consecutive trading days ending on the fifth trading day preceding the date on which of redemption is given is not less than 125% of the conversion price.

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

Fair value of the equity conversion component was determined using a Black Scholes valuation model, which resulted in a fair value per option of C\$3.37. The Company issued 1,666,667 conversion options with a total value of \$4.2 million less transaction costs of \$0.2 million, resulting in a fair value of the equity conversion option liability of \$4.0 million at issuance. Transaction costs that relate to the issue of a compound financial instrument are allocated to the components in proportion to the allocation of proceeds. The fair value of the debentures conversion option liability as of September 30, 2020 was \$4.6 million and a loss on valuation of \$3.3 million and \$2.8 million was recognized in other (losses) gains in the statement of operations for the nine and three months ended September 30, 2020.

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

17. Decommissioning liabilities

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

	South Meager	Sierra	Total
December 31, 2019	\$ 1,279	\$ 889	\$ 2,168
Revision in estimate	21	20	41
Accretion	8	4	12
September 30, 2020	\$ 1,308	\$ 913	\$ 2,221

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

	Undiscounted Costs	Discount Rates	
		September 30, 2020	December 31, 2019
South Meager	1,323	0.16%	1.58%
Sierra	1,123	0.28%	1.63%

18. Contingent liabilities

The contingent consideration to be issued to former Shareholder Lenders of the UEG subsidiaries upon COD of the 8 de Agosto and El Carmen projects (see Note 4) is recorded as a contingent liability and revalued each period, with changes recognized in the statement of comprehensive earnings. As at September 30, 2020, the total value of this consideration is \$6.5 million (2019 - \$6.6 million).

In May 2020, the Company executed an agreement with former minority shareholders of the UEG subsidiaries under which it agreed to a cash payment of \$0.2 million instead of the issuance of the Company's common stock.

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19. Share capital

The Company's capital transactions are presented in the statement of changes in total equity and as follows:

	Number of Shares Authorized	Number of Shares Issued and Fully Paid	Number of Shares Reserved for Issue Under Stock Options (Exercisable)	Number of Shares Reserved for Issue Under Warrants	Number of Shares Reserved for Issue Under Restricted and Deferred Stock Agreements	Number of Shares Reserved for Issue Under UEG Acquisition
Balance at January 1, 2019	16,282,299	15,678,299	266,565	300,000	155,132	2,132,405
Stock options exercised	24,000	24,000	(24,000)	-	-	-
Stock options forfeited or expired	-	-	(131,722)	-	-	-
Stock options vested	-	-	252,543	-	-	-
RSU shares issued	-	4,000	-	-	-	-
Balance at December 31, 2019	16,306,299	15,706,299	363,386	300,000	155,132	2,132,405
Stock options forfeited or expired	-	-	(39,063)	-	-	-
Stock options vested	-	-	6,000	-	-	-
Balance at September 30, 2020	16,306,299	15,706,299	330,323	300,000	155,132	2,132,405

The Company's Omnibus Long-Term Incentive Plan (the "LTIP") was adopted in June 2012 and amended in June 2017. The LTIP provided that stock options may be granted to directors, senior officers, employees and consultants of the Company or any of its affiliates and employees of management companies engaged by the Company, however, as the LTIP was not re-approved by the Company's shareholders no further grants are currently available. 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.

(a) Stock options, restricted share units and deferred share units

The Company's Omnibus Long-Term Incentive Plan (the "LTIP") adopted in June 2012 and most recently amended and approved in June 2017, provides that stock options may be granted to directors, senior officers, employees and consultants of the Company or any of its affiliates and employees of management companies engaged by the Company. Options granted under the LTIP are for a contractual term not to exceed five years from the date of their grant, and vesting is determined by the Company's Board.

The following table reconciles stock options outstanding as at September 30, 2020 and December 31, 2019:

	For the nine months ended September 30, 2020	Weighted Average Exercise Price (CDN)	For the year ended December 31, 2019	Weighted Average Exercise Price (CDN)
Balance at beginning of year	600,386	\$ 15.66	738,108	\$ 15.65
Granted during the period	-	-	18,000	13.50
Exercised during the period	-	-	(24,000)	10.00
Forfeited during the period	(69,063)	16.59	(131,722)	16.34
Ending balance	531,323	\$ 15.54	600,386	\$ 15.66

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The following table summarizes the information related to stock options outstanding as at September 30, 2020:

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	2.2	\$ 15.54	330,323	\$ 15.21
	531,323	2.2	\$ 15.54	330,323	\$ 15.21

For the nine months ended September 30, 2020 and 2019, the Company recognized share-based compensation expense associated with options, with a corresponding increase in contributed surplus, of \$0.1 million and \$0.1 million, respectively.

There are no performance criteria associated with RSUs. The Company remeasures the fair value of the RSUs at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the period. The Company recognized share-based compensation expense associated with RSUs of \$0.1 million and \$0.3 million for the nine months ended September 30, 2020 and 2019, respectively.

Deferred share units ("DSUs") granted to directors of the Company may be redeemed within the 90 days following termination from the Company by providing a notice of redemption specifying an election to receive either a cash payment or Company shares or both. Until the liability is settled, the Company will remeasure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss as part of share-based compensation for the period. The Company recognized share-based compensation expense associated with DSUs of \$0.03 million in the nine months ended September 30, 2020 and a decrease to share-based compensation expense associated with DSUs of \$0.1 million for the nine months ended September 30, 2019.

Warrants

The Company agreed to issue 300,000 warrants on October 30, 2018 as part of the consideration given in the UEG acquisition. The warrants will be delivered to Union Group upon delivery of the Peruvian Tax Certificate, which as of September 30, 2020 has not been received. The exercise price of the warrants is Cdn\$11.76888 and the warrants expire on October 30, 2020, at which date they were not exercised.

Upon initial recognition, the warrants were valued using a Black Scholes model with a current stock price of \$10.30, an exercise price of Cdn\$11.76888, a contractual term of 1.75 years, volatility based on the Company's stock of 50.35%, annual rate of dividends of 25.85%, a discount rate of 1.85% and an exchange rate of \$1.3642 Canadian dollars to one US dollar. The value of the warrants as of September 30, 2020 was \$0.4 million (September 30, 2019 - \$0.5 million) and was recorded as a warrant liability, which had been revalued each reporting period.

(b) Contributed surplus

The Company's contributed surplus consists of amounts ascribed to equity-settled employee benefits and other share-based payments, such as broker warrants. Additionally, for each transaction related to its stock, the Company allocates the consideration received between share capital and contributed surplus. The amount allocated to share capital is calculated as the number of shares issued multiplied by the market price of the Company's stock on the date of issuance, and the residual is allocated to contributed surplus. Contributed surplus also includes consideration to be issued in the UEG acquisition.

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(c) Per share amounts

The following tables summarize the common shares used in calculating net earnings per common share basic and diluted:

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Total earnings (loss) and comprehensive earnings (loss) attributable to owners of the Company	\$ 1,322	\$ 2,771	\$ 4,657	\$ (818)
Basic weighted average number of shares outstanding	15,706,299	15,706,299	15,706,299	15,703,574
Basic earnings (loss) per share	\$ 0.08	\$ 0.18	\$ 0.30	\$ (0.05)

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Total earnings (loss) and comprehensive earnings (loss) attributable to owners of the Company	\$ 1,322	\$ 2,771	\$ 4,657	\$ (818)
Diluted weighted average number of shares outstanding	16,374,604	16,371,052	16,361,328	16,332,901
Diluted earnings (loss) per share	\$ 0.08	\$ 0.17	\$ 0.28	\$ (0.05)

(d) Non-controlling interests

The Company owns 99.34% of Polaris Energy Corp (“PEC”), while PEC owns 95% of Cerro Colorado Corp. (“CCC”), both of which are Panamanian companies. CCC owns 90% of Cerro Colorado Power S.A. (“CCPSA”), a Nicaraguan company, which holds the concession to the Casita geothermal project. Earnings attributed to the non-controlling interest owners in these subsidiaries for the three months ended September 30, 2020 and 2019 were \$nil million and \$1.7 million, respectively.

20. Related party transactions

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

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Short-term employee benefits	\$ 181	\$ 117	\$ 615	\$ 416
Share-based payment	20	30	72	86
Total key management compensation	\$ 201	\$ 147	\$ 687	\$ 502

21. Commitments

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

	September 30, 2020	December 31, 2019
No later than one year	\$ 32	\$ 63
For years 2 - 5	310	315
Thereafter	684	727
Total commitments for expenditures	\$ 1,026	\$ 1,105

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22. Leases

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

	September 30, 2020	December 31, 2019
Opening balance	\$ 881	\$ 1,024
Lease payments	(214)	(177)
Adjustment	(22)	-
Amortization of discount	113	34
Ending balance as of	\$ 758	\$ 881

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

	September 30, 2020	December 31, 2019
Lease obligation, Current	\$ 206	\$ 252
Lease obligation, Long-term	552	629
Ending balance as of	\$ 758	\$ 881

23. 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 September 30, 2020 and 2019, respectively, the carrying amounts of accounts receivable, restricted cash, accounts payable and accrued liabilities, and current portion of long-term debt are measured at fair value or approximate fair value due to the short term to maturity, and therefore classified as Level 1.

The fair value of long-term debt approximates carrying value. The carrying value of the long-term debt is net of unamortized transaction costs and debt discounts further explained in Note 18. The carrying amounts of the Canchayllo and Generación Andina projects were recorded at fair value on the acquisition date using a discounted cash flow analysis.

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

(b) 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 September 30, 2020 was 6.24%. 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 \$nil million in financing costs for the three months ended September 30, 2020.

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.

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(c) Currency risk

The Company operates internationally and is exposed to risks from changes in foreign currency rates. The functional currency of the Company is the US dollar and currently most of the Company's transactions are denominated in US dollars. As at September 30, 2020 and 2019, the Company had cash, accounts payable and long-term debt in of CDN\$(23,469,531) and CDN\$(21,112,695) million, respectively. As at September 30, 2020, the Company had cash, accounts receivable, prepaid contractor advances and accounts payable of Sol\$7,917,810 held in its Peruvian subsidiaries.

The Company determined that a 10% change in the Canadian dollar against the US dollar would have impacted total loss and comprehensive loss by \$1.7 million and \$0.3 million for the nine months ended September 30, 2020 and 2019, respectively. The Company determined that a 10% change in the Peruvian Soles against the US dollar would have impacted total loss and comprehensive loss by \$0.2 million and \$0.1 million for the nine months September 30, 2020 and 2019. The Company does not enter into any foreign exchange contracts to mitigate this risk.

(d) 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.

(e) 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 of September 30, 2020.

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.

Polaris Infrastructure Inc.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2020 and 2019 (unaudited)

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

(g) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they become due. The Company manages liquidity risk by ensuring that it has sufficient cash, credit facilities and other financial resources available to meet its obligations. The Company forecasts cash flows for a period of 12 months to identify financial requirements. These requirements are met through a combination of cash flows from operations, credit facilities and accessing capital markets.

The following are maturities for the Company's non-derivative and derivative financial liabilities as at September 30, 2020:

	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years	Total
Accounts payable and accrued liabilities	\$ 10,925	\$ -	\$ -	\$ -	10,925
Debt, current and long-term	20,592	44,902	58,971	98,083	222,548
Interest obligations	7,422	11,516	6,897	3,958	29,793
	\$ 38,939	\$ 56,418	\$ 65,868	\$ 102,041	\$ 263,266

The following are maturities for the Company's non-derivative and derivative financial liabilities as at December 31, 2019:

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

Interest on the San Jacinto project credit facilities is due and payable quarterly and is currently estimated to be approximately \$1.9 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.

24. Capital management

The Company's capital structure is comprised of net long-term debt, as further disclosed in Note 16, and shareholders' equity (consisting of issued capital and contributed surplus offset by accumulated deficit). The Company's objectives when managing its capital structure are to:

- i) maintain financial flexibility to preserve the Company's access to capital markets and its ability to meet its financial obligations; and
- ii) finance internally generated growth as well as potential acquisitions.

In order to facilitate the management of capital, the Company prepares annual expenditure budgets, which are updated as necessary and are reviewed by the Company's Board.

In preparing its budgets, the Company considers externally-imposed capital requirements pursuant to the terms of the Phase I and Phase II Credit Agreements entered into by PENZA and SJPIC and the loan agreements for APG Ltd. (BVI) and Canchayllo and GA projects (Note 16). These externally-imposed capital requirements will affect the Company's approach to capital management. The Company's externally-imposed capital requirements include maintaining minimum debt service coverage and solvency ratios for PENZA, SJPIC, GASAC and EGECSAC and restrictions on the use of revenue from all projects.