POLARIS
RENEWABLE ENERGY

(formerly Polaris Infrastructure Inc.)

Condensed Consolidated Interim Financial Statements

September 30, 2022 and 2021

(Unaudited)

Polaris Renewable Energy Inc.

(formerly Polaris Infrastructure Inc.)

Condensed Consolidated Interim Balance Sheet

(expressed in thousands of United States dollars; unaudited)

	Note Ref		As at September 30, 2022		As at December 31, 2021
Assets					
Current assets					
Cash		**$**	**36,848**	$	97,930
Accounts receivable	11		**10,111**		9,324
Prepaid expenses and other current assets			**6,073**		2,889
			53,032	$	110,143
Restricted cash			**4,790**		3,835
Other assets, net	12		**10,488**		7,462
Construction in progress	13		**28,628**		8,779
Property, plant and equipment, net	4, 14		**372,315**		348,657
Intangible assets, net	4		**51,138**		22,968
Deferred tax asset, net			**2,156**		856
Goodwill	4		**13,488**		-
Total assets		**$**	**536,035**	$	502,700
Liabilities and Total Equity					
Current liabilities					
Accounts payable and accrued liabilities			**14,918**	$	10,743
Current portion of long-term debt, net	15		**13,204**		23,115
Current portion of lease liabilities			**271**		299
Contingent liabilities			**304**		-
Deferred revenue			**-**		150
			28,697	$	34,307
Non-current liabilities					
Long-term debt, net	4, 15		**172,963**		146,571
Conversion option liability	15		**-**		4,325
Lease liabilities	4		**2,702**		1,000
Decommissioning liabilities			**865**		910
Deferred tax liability, net	4		**61,175**		54,763
Total liabilities			**266,402**	$	241,876
Non-controlling interests			**(153)**		(1,935)
Equity attributable to the owners of the Company					
Share capital	16		**666,041**		649,076
Contributed surplus			**13,792**		14,270
Accumulated deficit			**(410,047)**		(400,587)
Total equity attributable to the owners of the Company			**269,786**		262,759
Total equity			**269,633**	$	260,824
Total liabilities and total equity		**$**	**536,035**	$	502,700

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

Approved by the Board of Directors

(signed) Marc Murnaghan
Chief Executive Officer

(signed) Jaime Guillen
Director

Polaris Renewable Energy Inc.

(formerly Polaris Infrastructure Inc.)

Condensed Consolidated Interim Statements of Operations and Comprehensive (Loss) Earnings

(expressed in thousands of United States dollars, except for shares and per share amounts; unaudited)

	Note Ref	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Revenue					
Power revenue	6	**$ 14,075**	$ 14,796	**$ 44,847**	$ 44,614
Carbon emission reduction credits revenue	6	**437**	10	**915**	$ 32
Direct costs					
Direct costs	7	**(2,827)**	(2,863)	**(8,253)**	(8,087)
Depreciation and amortization of plant assets	7	**(6,564)**	(6,356)	**(18,880)**	(19,641)
General and administrative expenses	7	**(2,032)**	(1,359)	**(4,944)**	(4,753)
Other operating costs		**(476)**	(4)	**(800)**	(19)
Operating income		**2,613**	4,224	**12,885**	12,146
Interest income		**256**	115	**405**	227
Finance costs	8	**(5,586)**	(4,136)	**(16,871)**	(12,808)
Other (loss) gains	9	**2,356**	2,950	**1,894**	4,840
(Loss) earnings and comprehensive (loss) earnings before income taxes		**(361)**	3,153	**(1,687)**	4,405
Current and deferred Income Tax recovery (expense)		**(1,122)**	(978)	**1,205**	(2,983)
Total (loss) earnings and comprehensive (loss) earnings		**$ (1,483)**	**$ 2,175**	**$ (482)**	$ 1,422
Total (loss) earnings and comprehensive (loss) earnings attributable to:					
Owners of the Company		**$ (1,491)**	$ 2,175	**$ (502)**	$ 1,422
Non-controlling interests		**$ 8**	$ -	**$ 20**	$ -
Basic (loss) earnings per share	17	**$ (0.07)**	$ 0.11	**$ (0.03)**	$ 0.08
Diluted (loss) earnings per share	17	**$ (0.07)**	$ 0.11	**$ (0.03)**	$ 0.08

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

Polaris Renewable Energy Inc.

(formerly Polaris Infrastructure Inc.)

Condensed Consolidated Interim Statements of Changes in Total Equity

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

	Note Ref	Common Stock Shares	Common Stock Amount	Contributed Surplus	Accumulated Deficit	Total Attributable to the Owners of the Company	Non-Controlling Interests	Total Equity
Balance at January 1, 2021		**15,706,299**	**598,982**	**19,716**	**(389,953)**	**228,745**	**(1,976)**	**226,769**
Share-based compensation	16	-	-	9		9	-	9
Dividends paid		-	-		(8,219)	(8,219)	-	(8,219)
Shares issued	16	3,721,796	48,633	(5,284)	-	43,349	-	43,349
Total earnings and comprehensive earnings		-	-		1,422	1,422		1,422
Balance at September 30, 2021		**19,428,095**	**647,615**	**14,441**	**(396,750)**	**265,306**	**(1,976)**	**263,330**
Share-based compensation	16	-	-	(10)	-	(10)	-	(10)
Dividends paid		-	-	-	(2,916)	(2,916)	-	(2,916)
Shares issued	16	97,281	1,461	(161)		1,300		1,300
Total earnings and comprehensive earnings					(921)	(921)	41	(880)
Balance, December 31, 2021		**19,525,376**	**649,076**	**14,270**	**(400,587)**	**262,759**	**(1,935)**	**260,824**
Share-based compensation	16	2,800	32	209	-	241	-	241
Dividends paid		-	-	-	(8,958)	(8,958)	-	(8,958)
Shares issued	16	1,497,599	16,933	(687)	-	16,246	-	16,246
Total earnings and comprehensive earnings		-	-	-	(502)	(502)	1,782	1,280
Balance at September 30, 2022		**21,025,775**	**$ 666,041**	**$ 13,792**	**$ (410,047)**	**$ 269,786**	**$ (153)**	**$ 269,634**

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

Polaris Renewable Energy Inc.

(formerly Polaris Infrastructure Inc.)

Consolidated Statements of Cash Flows

(Expressed in thousands of United States dollars; unaudited)

	Note Ref	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Net inflow (outflow) of cash related to the following activities			
Operating			
Total (loss) earnings and comprehensive (loss) earnings attributable to owners of the Company		**$ (502)**	$ 1,422
Add/(Deduct) items not affecting cash:			
Non-controlling interests in net loss of subsidiary		**19**	-
Current and deferred income tax (recovery) expense		**(1,205)**	2,983
Finance costs recognized	8	**12,373**	11,271
Depreciation and amortization	14	**19,538**	19,789
Accretion of decommissioning liability		**(7)**	13
Change in decommissioning liabilities		**(38)**	6
Gain on sale of assets	10	**-**	(1,447)
Loss (gain) on valuation of conversion option liability	15	**(3,526)**	(2,642)
Accretion on debt	15	**2,705**	2,612
Transaction cost and return enhancement	15	**(3,018)**	-
Share-based compensation	16	**1,073**	503
Unrealized foreign exchange (gain) loss		**820**	(234)
Changes in non-cash working capital:			
Accounts receivable	11	**909**	9,351
Prepaid expenses and other assets		**(7,738)**	(72)
Accounts payable and accrued liabilities		**(4,259)**	(2,258)
Cost of extinguishment of debt	15	**6,159**	-
Interest and return enhancement paid	15	**(5,592)**	(7,281)
Change in other assets	12	**2,949**	(113)
Net cash flow from operating activities		**20,660**	33,903
Investing			
Change in restricted cash		**(584)**	(2,995)
Additions to construction in progress	13	**(19,888)**	(4,472)
Proceeds on disposition of asset		**-**	317
Additions to property, plant and equipment	14	**12,348**	(1,460)
Business acquisition, net of cash received	4	**(49,181)**	-
Net cash flow to investing activities		**(57,305)**	(8,610)
Financing			
Proceeds from share issuance	16	**-**	38,205
Dividends paid		**(8,958)**	(8,219)
Proceeds from debt issuance	15	**110,000**	-
Debt issuance costs	15	**(9,470)**	-
Repayment of debt	15	**(115,708)**	(15,542)
Payments of the outstanding lease liability		**(302)**	66
Net cash flow to financing activities		**(24,438)**	14,510
Foreign exchange loss on cash held in foreign currency		**1**	(3)
Net (decrease) increase in cash		**(61,082)**	39,800
Cash, beginning of the year		**97,930**	60,058
Cash, end of the period		**$ 36,848**	$ 99,858

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

1. Organization

Prior to September 30, 2022, on July 13, 2022, Polaris Infrastructure Inc. completed the regulatory process and changed its legal name to Polaris Renewable Energy Inc. (the "**Company**"). The Company was incorporated under the British Columbia Business Corporations Act but completed the endorsement process to continue as an Ontario Corporation on July 5, 2022. The registered office of the Company is located at 7 St. Thomas Street, Suite 606, Toronto, Ontario M5S 2B7.

The Company is engaged in the acquisition, exploration, development, and operation of renewable energy projects in the Americas.

The Company, through its subsidiaries Polaris Energy Nicaragua, S.A. ("PENSA") and San Jacinto Power International Corporation ("SJPIC"), owns and operates a 72-megawatt ("MW") (net) capacity geothermal facility (the "San Jacinto Project"), located in northwest Nicaragua, near the city of Leon. PENSA entered into the San Jacinto Exploitation Agreement with the Nicaraguan Ministry of Energy and Mines to develop and operate the San Jacinto Project.

Through its subsidiary Empresa de Generación 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).

On March 16, 2022, through its subsidiary Polaris Renewable Energy SA ("PRESA"), the Company completed the acquisition of 100% of two solar projects located in Vista Hermosa, in the Coclé Province in Panama, in exchange for $0.6 million purchase price, from which $0.3 million have been paid as of June 30, 2022. The transaction was accounted for as an asset acquisition. The two solar projects have an expected capacity of approximately 10 MWac (net) each.

On June 28, 2022, the Company completed the acquisition of 100% of the common shares issued and outstanding of Emerald Solar Energy SRL ("Emerald"), the sole owner of Canoa 1, an operational solar plant with 25 MWac (net) capacity, located in the Barahona Province, Dominican Republic. The transaction was accounted for as a business combination, and it is described in note 4 below.

On September 7, 2022, the Company completed the acquisition of 83.16% of the shares issued and outstanding of Hidroeléctrica San Jose de Minas ("HSJM"), the sole owner of an operational hydroelectric plant with 6 MW (net) capacity, located along the Perlabi river in San Jose de Minas, Ecuador. The transaction was accounted for as a business combination, and it is described in note 4 below.

2. Basis of Preparation and Presentation

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, have been omitted or condensed. Accordingly, the interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2021.

The accounting policies applied in the preparation of these condensed consolidated interim financial statements are consistent with those applied and disclosed in the Company's consolidated financial statements for the year ended December 31, 2021. In particular, the Company's significant accounting policies were presented in *Note 3: Significant Accounting Policies* to the consolidated financial statements for the year ended December 31, 2021.

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

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors of the Company (the "Board") on November 2, 2022.

3. Significant Accounting Policies and Critical Accounting Estimates

Significant Accounting Policies

Business combination or asset acquisition

When a project is acquired, management is required to exercise its judgment to determine whether the transaction constitutes a business combination under IFRS 3, Business Combinations, or an asset acquisition. Management determines that a transaction is defined as a business combination by analyzing the inputs, processes and outputs existing at the moment of the transaction.

Business combinations are accounted for using the acquisition method. The consideration transferred by the Company to obtain control of a subsidiary is calculated as the sum of the fair values of assets transferred, liabilities assumed, and the equity instruments issued by the Company, which includes the fair value of any asset or liability arising from a contingent consideration arrangement.

When the Company acquires less than 100% of a controlled subsidiary, the Company elects on a transaction-by-transaction basis, whether to measure non-controlling interest at its fair value or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Acquisition costs are expensed to earnings as incurred. The Company recognizes identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have previously been recognized in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are measured at their acquisition-date fair values.

Goodwill is determined after separate recognition of identifiable assets acquired. It is calculated as the excess of the sum of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of any existing equity interest in the acquiree over the acquisition-date fair value of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (gain on a bargain purchase) is recognized through earnings immediately.

If the business combination is achieved in stages, the acquisition-date carrying amount of the acquirer's previously held interest in the acquiree is remeasured at its acquisition-date fair value with any resulting gain or loss recognized in net earnings (loss).

Service concession arrangements

IFRIC Interpretation 12, *"Service Concession Arrangements", ("IFRIC 12")* provides guidance on the accounting for certain qualifying public-private partnership arrangements, whereby the grantor:

- controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
- controls – through ownership, beneficial entitlement or otherwise - any significant residual interest in the infrastructure at the end of the term of the arrangement.

IFRIC 12 is based on a "control of use" model as opposed to "risks and rewards", therefore under such concession arrangements the operator accounts for the infrastructure asset by applying one of the accounting models depending on the allocation of the demand risk through the usage of the infrastructure between the grantor and the operator:

- Financial asset model – The operator recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the services.

- Intangible asset model – The operator recognizes an intangible to the extent that it receives a right (license) to charge users of the public service. Demand risk and/or performance risk is borne by the operator.

Accounting for concession arrangements requires the application of judgment in determining if the project falls within the scope of IFRIC 12. Additional judgments are needed when determining, among other things, the accounting model to be applied under IFRIC 12, the allocation of the consideration receivable between revenue-generating activities, the classification of costs incurred on such activities, as well as the effective interest rate to be applied to the financial asset. As the accounting for concession arrangements under IFRIC 12 requires the use of estimates over the term of the arrangement, any changes to these long-term estimates could result in a significant variation in the accounting for the concession arrangement.

The Company has classified the assets that are part of HSJM's plant as intangible asset under the intangible asset model. The intangible asset is then amortized over its expected useful life, which is the concession period in a service concession arrangement. Amortization period begins when the infrastructure is available for use.

New and Revised IFRSs not yet Effective

Amendments to IAS 16: Property, Plant and Equipment: Proceeds before Intended Use.

IAS 16 Property, Plant and Equipment has been revised to incorporate amendments issued by the IASB in May 2020. The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly). Instead, a company will recognize such sales proceeds and related costs in profit (loss). The amendments also clarify the definition of testing and require certain related disclosures. An entity is required to apply these amendments for annual reporting periods beginning on or after January 1, 2022, and early adoption is accepted. The amendments are applied retrospectively only to items of property, plant and equipment that are available for use after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The Company has ongoing projects with completion dates expected during the fourth quarter of 2022 and it will apply the new standard to these projects as they start to generate revenue.

Amendments to IAS 1: Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current

In January 2020, the IASB issued Classification of Liabilities as Current or Non-Current, which amends IAS 1 Presentation of Financial Statements. The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of its recognition. It clarifies that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period and specifies that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. It also introduces a definition of 'settlement 'to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The Company is assessing the potential impact of these amendments.

Critical Accounting Estimates

In preparing these condensed consolidated interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates. The critical judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied and disclosed in *Note 4: Critical Judgements and Estimation Uncertainties* to the Company's consolidated financial statements for the year ended December 31, 2021.

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

Sources of estimation uncertainty include estimates to determine the recoverable amount of property, plant and equipment, construction in progress, the valuation of other assets and liabilities including environmental rehabilitation provisions, determination of the assumptions and inputs to value intangible asset associated to power purchase agreements in place, including the ability to extend the term of such power purchase agreements, assumptions to estimate the future merchant or spot price per MWh in a particular jurisdiction, assumptions to estimate the likelihood of realizing income tax losses upon which the recognition of a deferred income tax asset or liability is established, and the determination of the accounting method for business combinations.

4. Business Acquisitions

i) Acquisition of Emerald Solar Energy SRL

On April 20, 2022, the Company entered into a Share Purchase Agreement ("SPA") with a Canadian-based renewable energy developer, Potentia Renewables Inc. ("Potentia"), to acquire all of the issued and outstanding common shares of Emerald Solar Energy SRL ("Emerald"), which owns 100% of a 25 MW (net) operational solar project ("Canoa 1") located in the Barahona Province, Dominican Republic. The acquisition was completed on June 28, 2022.

The acquisition has been accounted for as a business combination in accordance with IFRS 3 - *Business Combinations*, using the acquisition method whereby the assets acquired and liabilities assumed are recorded at fair value. The preliminary allocation of the purchase price was established based on fair values of assets acquired and liabilities assumed as at acquisition date, summarized as follows:

		Preliminary allocation as at June 28, 2022
Net cash paid as consideration	**$**	**20,286**
Identifiable assets acquired:		
Cash and cash equivalents		1,825
Receivables and other assets		2,257
Property, plant and equipment		38,523
Intangible asset		13,798
Right of use asset		1,845
Total assets acquired	**$**	**58,248**
Less liabilities assumed:		
Accounts payable and accrued liabilities		(1,740)
Bank debt, net		(33,949)
Lease liability		(1,845)
Deferred tax liability		(6,305)
Total liabilities assumed	**$**	**(43,839)**
Net assets acquired	**$**	**14,409**
Goodwill	**$**	**5,877**

The Company paid $20.3 million as consideration in cash. Trade and other receivables acquired as part of the acquisition have a fair value of $1.7 million and the Corporation expects to collect the entire amount during 2022.

Canoa 1 started commercial operations on March 7, 2020, and has a power purchase agreement ("PPA") in place with Edesur Dominicana SA ("Edesur"), denominated in US dollars, with an estimated price for 2022 of $128.10 per MWh. The PPA has an inflator of 1.22% per annum until the price reaches $142.80 per MWh at which point the price remains fixed until the end of the PPA in 2040. An option to renew the PPA for a five-year term, at a price 20% lower than the PPA price in place in 2040 is included in the agreement, and management estimates that the renewal will be approved. The Intangible asset balance of $13.8 million represents the preliminary fair value allocated to the existing PPA, based on management estimates, judgement and inputs available at the date of acquisition.

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

Transaction costs related to due diligence fees, legal costs and other professional fees of $0.4 million were incurred in relation to the acquisition and were expensed as Other Operating Costs in the Condensed Consolidated Interim Statements of Operations and Comprehensive Earnings.

Upon final determination of fair values as at acquisition date, the Company expects that some balance sheet items such as Intangible assets, Property, plant and equipment, Assumed liabilities and Deferred tax liability would change and therefore may result in variances to the Goodwill amount preliminarily recognized as of September 30, 2022. Furthermore, the final recognition of the business combination could differ from amounts presented and could also result in favourable or unfavourable impacts, among others, on the currently recorded amortization and income tax expenses. These changes would be recorded retrospectively as at the acquisition date.

If the transaction had closed on January 1, 2022, the Company would have recognized $5.4 million in revenue, $2.8 million in operating costs and $0.2 million in net loss and comprehensive loss as of September 30, 2022.

ii) Acquisition of Hidroeléctrica San Jose de Minas

On March 17, 2022, the Company entered into a SPA with a local developer to acquire 83.16% of the issued and outstanding common shares of Hidroeléctrica San José de Minas S.A. (“HSJM”), an operational hydro project located along the river Cubi, in San Jose de Minas, Ecuador. HSJM represents approximately 6 MW (net) capacity and has been operating since July 1, 2020. The purchase was completed on September 7, 2022.

The acquisition has been accounted for as a business combination in accordance with IFRS 3 - *Business Combinations*, using the acquisition method whereby the assets acquired and liabilities assumed are recorded at fair value. The preliminary allocation of the purchase price was established based on fair values of assets acquired and liabilities assumed as at acquisition date, summarized as follows:

	Balance at September 7, 2022	Adjustments to fair value	Preliminary allocation as at September 7, 2022
Net cash paid as consideration			**$ 15,169**
Consideration payable			**1,157**
Total consideration			**$ 16,326**
Identifiable assets acquired:			
Cash and cash equivalents	$ 804	$ -	$ 804
Restricted cash	371	-	371
Receivables and other assets	498	-	498
Assets under concession	14,901	536	15,437
Construction in progress	46	-	46
Total assets acquired			**$ 17,155**
Less liabilities assumed:			
Accounts payable and accrued liabilities	$ (472)	$ -	$ (472)
Bank debt, net	(6,137)	-	(6,137)
Deferred tax liability	-	(80)	(80)
Total liabilities assumed			**$ (6,689)**
Net assets acquired			**$ 10,466**
Non-controlling interest measured			**$ 1,762**
Goodwill			**$ 7,623**

The purchase price determined in exchange for the 83.16% interest in HSJM was $16.3 million, from which $15.2 million was paid in cash to the seller and $1.2 million has been withheld to be paid to the Ecuadorean tax authority on the seller's behalf.

Receivables and other assets balance includes $0.4 million of Trade receivables that the Company expects to collect in full during the fourth quarter of 2022.

In May 2014 HSJM was granted a 40-year concession and 15-year PPA with ARCERNN, a wholly owned Ecuadorian government entity, to sell production at $78.10/MWh, from which 7 years are remaining. After the seventh year of the PPA, the price applicable will be determined based on the average of the price listed at that time. Given the terms and conditions of the PPA and concession, the Company is currently assessing whether the PPA meets the definition of an intangible, as defined under IAS 38 - *Intangibles*, and therefore whether any value can be allocated to it as part of the purchase accounting for this transaction. As of September 30, 2022, the Company has not yet concluded on whether any value can be assigned to the intangible as part of the purchase price allocation.

The Company analyzed the characteristics of the 40-year concession agreement as well as the components of the hydroelectric plant and concluded that it meets the conditions required by IFRIC 12 – *Service Concession Arrangements.* Therefore, the components of the hydroelectric plant have been identified as an intangible and classified as "Assets under concession" and are amortized over the remaining useful life of the concession. The Company engaged a local firm to perform an appraisal of the assets under concession acquired, which resulted in a fair value estimate of $15.4 million. Accordingly, a $0.5 million fair value adjustment to net book value was recorded as part of the preliminary allocation.

The non-controlling interest representing the 16.84% of the shares that are held by minority shareholders was measured using the proportionate share method, based on the net assets acquired of $10.5 million determined from the preliminary allocation. The non-controlling interest preliminary measured is $1.8 million.

Transaction costs related to due diligence fees, legal costs and other professional fees of $0.5 million were incurred in relation to the acquisition and were expense as Other Operating Costs in the Condensed Consolidated Interim Statements of Operations and Comprehensive Earnings.

Upon final determination of fair values as at acquisition date, the Company expects that some balance sheet items such as Intangible assets, Assumed liabilities and Deferred tax assets or liabilities would change and therefore may result in adjustments to the Goodwill amount preliminarily recognized. Furthermore, the final recognition of the business combination could differ from amounts presented and could also result in favourable or unfavourable impacts, among others, on the currently recorded amortization and income tax expenses. These changes would be recorded retrospectively as at the acquisition date.

If the transaction had closed on January 1, 2022, the Company would have recognized $2.5 million in revenue, $1.8 million in operating costs and $0.7 million in net earnings and comprehensive earnings as of September 30, 2022.

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

5. Segment Information

The Company currently operates in five reportable operating segments:

- Nicaragua - Acquisition, exploration, development and operation of a geothermal project;
- Peru - Acquisition, exploration, development and operation of hydroelectric projects;
- Panama - Acquisition, development and operation of solar projects (Note 1);
- Dominican Republic - Acquisition, development and operation of solar projects (Note 4);
- Ecuador - Acquisition, exploration, development and operation of hydroelectric projects (Note 4).

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. The column Other represents expenses, assets and liabilities for Canada and the United States, not related to the Company's reportable operating segments. These represent corporate headquarters and other minor North America holdings, which are not considered individually as reportable operating segments, but are presented below for reconciliation purposes to the Company's total loss, revenue, expenses, assets and liabilities in these consolidated financial statements.

	Nicaragua		Peru		Dominican Republic		Ecuador		Panama		Other		Total	
For the Three Months Ended September 30,	**2022**	**2021**	**2022**	**2021**	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	**2021**	**2022**	**2021**
Revenue														
Power revenue	**$11,003**	$13,437	**1,024**	$ 1,337	**1,857**	$ -	**191**	$ -	**-**	$ -	**-**	$ -	**$14,075**	$14,774
Carbon emission reduction credits revenue	—	—	**-**	32	**-**	-	**-**	-	**-**	-	**437**	-	**437**	32
Direct costs														
Direct costs	**(1,764)**	(1,803)	**(843)**	(1,060)	**(270)**	-	**(32)**	-	**-**	-	**82**	-	**(2,827)**	(2,863)
Depreciation and amortization of plant assets	**(5,482)**	(5,840)	**(679)**	(516)	**(398)**	-	**(46)**	-	**-**	-	**41**	-	**(6,564)**	(6,356)
General and administrative expenses	**(379)**	(387)	**(117)**	(145)	**(93)**	-	**(30)**	-	**(8)**	-	**(1,405)**	(827)	**(2,032)**	(1,359)
Other operating costs	—	—	**-**	—	**(8)**	-	**-**	-	**-**	-	**(468)**	(4)	**(476)**	(4)
Operating income	**3,378**	5,407	**(615)**	(352)	**1,088**	-	**83**	-	**(8)**	-	**(1,313)**	(831)	**2,613**	4,224
Interest income	**47**	60	**-**	-	**1**	-	**-**	-	**-**	-	**208**	55	**256**	115
Finance costs	**(2,720)**	(2,460)	**(1,193)**	(1,172)	**(720)**	-	**(46)**	-	**(12)**	-	**(895)**	(504)	**(5,586)**	(4,136)
Other (losses) gains	**-**	(14)	**-**	850	**2**	-	**(12)**	-	**-**	-	**2,366**	2,114	**2,356**	2,950
Earnings (loss) and comprehensive earnings (loss) before income taxes	**705**	2,993	**(1,808)**	(674)	**371**	-	**25**	-	**(20)**	-	**366**	834	**(361)**	3,153
Income tax recovery (expense)	**220**	(736)	**(1,342)**	(242)	**-**	-	**-**	-	**-**	-	**-**	-	**(1,122)**	(978)
Total earnings (loss) and comprehensive earnings (loss)	**$ 925**	$ 2,257	**$(3,150)**	$ (916)	**$ 371**	$ -	**$ 25**	$ -	**$ (20)**	$ -	**$ 366**	$ 834	**$ (1,483)**	$ 2,175

Polaris Renewable Energy Inc.

(formerly Polaris Infrastructure Inc.)

Notes to the Condensed Consolidated Interim Financial Statements

September 30, 2022 and 2021

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

	Nicaragua		Peru		Dominican Republic		Ecuador		Panama		Other		Total	
For the Nine Months Ended September 30,	**2022**	**2021**	**2022**	**2021**	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	**2021**	**2022**	**2021**
Revenue														
Power revenue	**$ 36,240**	$ 39,202	**$ 6,559**	$ 5,412	**$1,857**	$ -	**$191**	$ —	**$ —**	$ —	**$ —**	$ —	**$ 44,847**	$ 44,614
Carbon emission reduction credits revenue	-	-	-	32	-	-	**-**	-	**-**	-	**915**	-	**915**	32
Direct costs														
Direct costs	**(5,353)**	(5,301)	**(2,680)**	(2,786)	(270)	-	**(32)**	-	**-**	-	**82**	-	**(8,253)**	(8,087)
Depreciation and amortization of plant assets	**(16,440)**	(17,803)	**(2,037)**	(1,838)	(398)	-	**(46)**	-	**-**	-	**41**	-	**(18,880)**	(19,641)
General and administrative expenses	**(1,159)**	(1,181)	**(346)**	(443)	(93)	-	**(30)**	-	**(49)**	-	**(3,267)**	(3,129)	**(4,944)**	(4,753)
Other operating costs	**-**	-	**-**	-	(8)	-	**-**	-	**-**	-	**(792)**	(19)	**(800)**	(19)
Operating income	**13,288**	14,917	**1,496**	377	1,088	-	**83**	—	**(49)**	—	**(3,021)**	(3,148)	**12,885**	12,146
Interest income	**59**	86	**—**	-	1	-	**-**	—	**—**	—	**345**	141	**405**	227
Finance costs	**(10,826)**	(7,646)	**(3,259)**	(3,623)	(720)	-	**(46)**	—	**(14)**	—	**(2,006)**	(1,539)	**(16,871)**	(12,808)
Other (loss) gains	**(1)**	(94)	**3**	488	2	-	**(12)**	—	**-**	—	**1,902**	4,446	**1,894**	4,840
Earnings (loss) and comprehensive earnings (loss) before income taxes	**2,520**	7,263	**(1,760)**	(2,758)	371	-	**25**	—	**(63)**	—	**(2,780)**	(100)	**(1,687)**	4,405
Income tax (expense) recovery	**(26)**	(2,242)	**1,231**	(741)	-	—	**-**	—	**-**	—	**—**	-	**1,205**	(2,983)
Total earnings (loss) and comprehensive earnings (loss)	**$ 2,494**	$ 5,021	**$ (529)**	$(3,499)	**$ 371**	$ -	**$ 25**	$ -	**$ (63)**	$ -	**$(2,780)**	$ (100)	**$ (482)**	$ 1,422

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

Assets and liabilities		As at September 30, 2022		As at December 31, 2021
Other	**$**	**21,091**	$	66,261
Nicaragua		**320,090**		338,377
Peru		**98,735**		98,062
Dominican Republic		**62,624**		-
Ecuador		**24,435**		-
Panama		**9,060**		-
Total assets	**$**	**536,035**	$	502,700
Other	**$**	**4,667**	$	3,446
Nicaragua		**295,954**		295,890
Peru		**91,989**		93,216
Dominican Republic		**59,564**		-
Ecuador		**23,068**		-
Panama		**7,761**		-
Total non-current assets	**$**	**483,003**	$	392,552
Other	**$**	**1,344**	$	21,865
Nicaragua		**165,566**		171,333
Peru		**49,841**		48,678
Dominican Republic		**41,676**		-
Ecuador		**7,479**		-
Panama		**496**		-
Total liabilities	**$**	**266,402**	$	241,876

6. Revenue

Revenue by type is summarized in the following table:

	Three Months Ended				Nine Months Ended			
Project		**September 30, 2022**		**September 30, 2021**		**September 30, 2022**		**September 30, 2021**
Nicaragua *(i)*								
San Jacinto (Geothermal)	**$**	**11,003**	$	13,437	**$**	**36,240**	$	39,202
Peru *(ii)*								
Generación Andina (Hydroelectric)		**695**		974		**5,527**		4,516
Canchayllo (Hydroelectric)		**329**		385		**1,032**		896
Dominican Republic *(iii)* (Note 4)								
Canoa 1 (Solar)		**1,857**		-		**1,857**		-
Ecuador *(iv)* (Note 4)								
San Jose de Minas (Hydroelectric)		191		-		**191**		-
Total revenue from power production		**14,075**		**14,796**		**44,847**		**44,614**
Carbon emission reduction credits		**437**		**10**		**915**		32
	$	**14,512**	$	**14,806**	$	**45,762**	$	44,646

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

(ii) *For Peru, under the terms of the PPAs, the Company bills at the spot rate for current energy generation. The difference between the spot rate and the PPA rate (plus an effective annual interest rate of 12%) is calculated annually each May for the previous 12 months and is paid evenly over the following 12 months.*

(iii) *In the Dominican Republic, the Company bills energy 30 days after delivery and collects the receivable 30 days after billing.*

(iv) *For Ecuador, energy is billed 10 days after delivery and the receivable is collected 30 days after billing.*

The Company has determined that it has one performance obligation which is the delivery of electricity to its customers. There is no revenue recognized from unfulfilled performance obligations. Note 11 to these financial statements provides details on the Company's contract balances related to this revenue.

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

7. Direct Costs and General and Administrative Expenses

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

	Three Months Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Depreciation and amortization	**$ 6,564**	$ 6,356	**$ 18,880**	$ 19,641
Employee costs	**999**	793	**2,629**	2,320
General liability insurance	**742**	602	**1,881**	1,721
Land, building and other Municipal and Federal Taxes	**457**	411	**1,360**	1,418
Maintenance	**430**	905	**1,792**	2,151
Other direct costs	**200**	153	**592**	477
	$ 9,392	**$ 9,220**	**$ 27,134**	$ 27,728

(b) General and administrative expenses

	Three Months Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Salaries and benefits	**$ 798**	$ 654	**$ 2,320**	$ 2,071
Share-based compensation	**231**	223	**391**	735
Facilities and support	**131**	89	**469**	317
Professional fees	**589**	287	**1,178**	1,281
Insurance	**45**	49	**160**	182
Depreciation of other assets	**117**	54	**286**	160
Other general and administrative expenses	**121**	3	**140**	7
	2,032	**1,359**	**$ 4,944**	$ 4,753

8. Finance Costs

	Three Months Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Interest on debt *(i)*	**$ 5,106**	$ 3,654	**$ 12,373**	$ 11,271
Extinguishment of debt/Accretion on debt (ii)	**361**	350	**3,957**	1,088
Accretion of decommissioning liabilities	**9**	-	**23**	-
Banking fees and other finance costs	**119**	132	**541**	449
	$ 5,586	**$ 4,136**	**$ 16,871**	**$ 12,808**

(i) Cash paid for interest and return enhancement during the three-month period ended September 30, 2022 and 2021 was $5.6 million and $7.3 million, respectively.

(ii) As of September 30, 2022, a $3.2 million net loss on extinguishment of debt was recognized because of the Senior Debt Facility completed on February 11, 2022 (Note 15). The net loss is the result of $6.2 million costs incurred in the extinguishment of the old debt and a $3.0 million gain resulting from the reversal of unamortized return enhancement and deferred transaction costs.

9. Other Gains and Losses

	Three Months Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Foreign exchange gain (loss) gain	**$ (1,446)**	$ 71	**$ (1,137)**	$ 154
Gain on valuation of contingent liabilities	**-**	5	**-**	-
Gain on valuation of conversion option liability *(i)* (Note 15)	**4,374**	1,874	**3,557**	2,642
Other (losses) gains *(ii)*	**(572)**	1,000	**(526)**	2,044
	$ 2,356	**$ 2,950**	**$ 1,894**	$ 4,840

(i) During the three months ended September 30, 2022, the majority of the debentures outstanding were converted into shares by the debenture holders, from which a gain on valuation of conversion option liability of $4.4 million was recognized (Note 15).

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

(ii) Other gains (losses), for the nine months ended September 30, 2021, include the $1.4 million gain recognized from the disposal of 100% controlling interest in Meager Creek Development Corporation, with no current period comparative.

10. Divestitures

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

		September 30, 2021
Assets		
Cash		10
Restricted cash		118
Other assets, net		30
Total assets	$	158
Non-current liabilities		
Decommissioning liabilities		1,288
Total liabilities	$	1,288

11. Accounts Receivable

		September 30, 2022		December 31, 2021
Nicaragua *(i)*				
San Jacinto (Geothermal)	**$**	**8,260**	$	9,302
Peru *(ii)*				
Generación Andina (Hydroelectric)		**3**		19
Canchayllo (Hydroelectric)		**181**		3
Dominican Republic *(iii)*				
Canoa 1 (Solar) (Note 4)		**1,230**		-
Ecuador *(iv)*				-
San Jose de Minas (Hydroelectric)		**437**		-
	$	**10,111**	$	9,324

(i) The balance is comprised of amounts due by Disnorte and Dissur, which have 45 days payment term from invoice date.
(ii) The average credit period granted to costumers is 30 days from invoice date.
(iii) The balance is due by EDESUR and has a credit period of 30 days from the issuance of the invoice (note 4).
(iv) The balance has a credit period of 30 days from the issuance of the invoice (Note 4).

The Company assessed the risk of credit losses for its accounts receivable and concluded it is immaterial, therefore it has not recorded a loss allowance (Note 18 (b) Credit Risk).

12. Other Assets

		September 30, 2022		December 31, 2021
Recoverable taxes *(i)*	**$**	**2,401**	$	3,053
Contractor advances and others *(ii)*		**4,941**		3,000
Non-financial assets				
Fixed assets, net		**237**		184
Right-of-use-asset, net *(iii)* (Note 4)		**2,909**		1,225
	$	**10,488**	$	7,462

(i) As of September 30, 2022, recoverable taxes include VAT receivables from the Peruvian subsidiaries, which are shown net as they will be applied against VAT payable from the sale of power by our Generación Andina and Canchayllo projects. The presentation of

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

recoverable taxes in the comparative period has been reclassified to be presented on the same basis as current period figures. In particular, recoverable taxes receivable is now shown net of recoverable tax payables.

(ii) Includes a $3.0 million advance made for solar panels for the Panama solar projects, which were shipped subsequent to September 30, 2022.

(iii) Right-of-use-asset includes $1.8 million for a right to use land agreement, assumed upon acquisition of Emerald (Note 4).

13. Construction in Progress

	December 31, 2021	2022 Activity	2022 Transfers to PP&E	September 30, 2022
San Jacinto Binary Plant	$ 7,006	$ 15,960	$ -	$ 22,966
San Jacinto improvements	424	599	(733)	290
Generación Andina	1,189	85	-	1,274
Canchayllo	160	3	-	163
Solar Projects (i)	-	3,473	-	3,473
Others	-	461	-	461
	$ 8,779	$ 20,580	$ (733)	$ 28,627

(i) *On March 16, 2022, the Company acquired two solar projects in Panama, which are currently under construction with expected completion date during the fourth quarter of 2022.*

	December 31, 2020	2021 Activity	2021 Transfers to PP&E	December 31, 2021
San Jacinto Binary Plant	$ 1,126	$ 5,880	$ -	$ 7,006
San Jacinto improvements	25	762	(363)	424
Generación Andina	-	1,189	-	1,189
Canchayllo	-	160	-	160
	$ 1,151	$ 7,628	$ 8,417	$ 8,779

14. Property, Plant and Equipment, net

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

	December 31, 2021	2022 Acquisitions	2022 Activity	2022 Transfers from CIP	September 30, 2022
San Jacinto geothermal project	$ 521,329	$ -	$ 79	$ 733	$ 522,141
Generación Andina hydroelectric projects	63,103	-	-	-	63,103
Canchayllo hydroelectric project	10,064	-	29	-	10,093
Canoa 1 solar project (Note 4)	-	43,758	28	-	43,786
Accumulated depreciation	(250,318)	(5,235)	(18,269)	-	(273,822)
Other assets	-	-	28	-	28
Capital spares(i)	4,479	-	2,507	-	6,986
	$ 348,657	$ 38,523	$ (15,598)	$ 733	$ 372,316

(i) *Additions to Capital spares include $1.3 million of spare parts related to the Binary Plant, which will be reclassified to PP&E once the Plant starts operations.*

	December 31, 2020	2021 Activity	2021 Transfers from CIP	December 31, 2021
San Jacinto geothermal project	$ 520,610	$ 356	$ 363	$ 521,329
Generación Andina hydroelectric projects	63,103	-	-	63,103
Canchayllo hydroelectric project	10,064	-	-	10,064
Accumulated depreciation	(225,642)	(24,676)	-	(250,318)
Other assets	624	(624)	-	-
Capital spares	4,003	476	-	4,479
	$ 372,762	$ (24,468)	$ 363	$ 348,657

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

PP&E assets currently in operation are being depreciated on a straight-line basis over the remaining term of their estimated useful lives. Depreciation expense of $6.6 million and $6.4 million for the periods ended September 30, 2022 and 2021 respectively, including depreciation of intangible assets was recorded in the consolidated statements of operations and comprehensive loss.

15. 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	PENSA Refinanced Debt	APG Debt	Generación Andina Debt	Canoa 1 Debt (Note 4)	San Jose de Minas (Note 4)	PIF Debenture	Total
Loans and other borrowings – December 31, 2021	$ 18,014	$ 9,039	$ 71,277	$ 14,976	$ 113,306	$ -	$ 22,342	$ 20,165	$ -	$ -	$ 13,873	**$ 169,686**
Accrued interest expense	-	-	-	-	-	-	-	1,277			-	**1,277**
Acquisition of debt					-	-	-	-	35,514	6,151		**41,665**
Deferred transaction costs	297	(2,259)	1,888	(2,943)	(3,017)	(4,506)	-	-	(1,564)	(14)	-	**(9,101)**
Proceed from loan	-	-	-	-	-	110,000	-	-	-		-	**110,000**
Return enhancement	-	121	-	179	300	-		-			-	**300**
Accretion of deferred transaction costs and debt discount	39	-	87	-	126	418	203	-	44		1,914	**2,705**
Repayments of debt	(18,350)	(6,901)	(73,252)	(12,212)	(110,715)	(1,893)	-	(1,010)	(875)	(95.37)	(1,119)	**(115,707)**
Conversion of debt											(15,479)	**(15,479)**
Effect of foreign exchange on loans	-	-	-	-	-	-	-	-	-	9	811	**820**
Loans and other borrowings – September 30, 2022	$ -	$ -	$ -	$ -	$ -	$ 104,019	$ 22,545	$ 20,432	$ 33,119	$ 6,051	$ -	**$ 186,166**
Current	$ -	$ -	$ -	$ -	$ -	$ 8,507	$ 100	$ 2,040	$ 1,447	$ 1,110	$ -	**$ 13,204**
Non-current	-	-	-	-	-	95,512	22,445	18,392	31,672	4,942	-	**172,963**
Unamortized debt discount	-	-	-	-	-	4,088	2,455	19,513	1,520	-	-	**27,576**
Principal balance	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 108,107**	**$ 25,000**	**$ 39,945**	**$ 34,639**	**$ 6,051**	**$ -**	**$ 213,742**
Maturity dates						**9/15/2036**	**6/5/2028**	**6/15/2038**	**9/30/2037**	**7/25/2028**	**5/31/2024**	

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

	Three Months Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Phase I Facility				
Interest recorded as financing cost	$ -	$ 600	$ 309	$ 1,908
Accretion recorded as financing cost	-	69	39	222
Accretion recorded as financing cost - extinguishment of debt	-	-	(567)	-
Phase II Facility				
Interest recorded as financing cost	-	1,560	783	4,802
Accretion recorded as financing cost	-	143	90	441
Accretion recorded as financing cost - extinguishment of debt	-	-	3,709	-
Senior Debt Facility				
Interest recorded as financing cost	2,506	-	5,785	-
Accretion recorded as financing cost	156	-	388	-
Generación Andina Debt				
Interest recorded as financing cost	420	427	1,277	1,296
APG Debt				
Interest recorded as financing cost	559	559	1,525	1,703
Accretion recorded as financing cost	110	138	203	425
Debentures				
Interest recorded as financing cost	881	497	1,913	1,524
Canoa Debt				
Interest recorded as financing cost	627	-	627	-
Accretion recorded as financing cost	95	-	95	-
SJM Debt				
Interest recorded as financing cost	44	-	44	-
Other				
Interest recorded as financing cost	69	11	110	38
Total				
Interest recorded as financing cost	**$ 5,106**	**$ 3,654**	**$ 12,373**	**$ 11,271**
Accretion recorded as financing cost	**361**	**350**	**815**	**1,088**
Accretion recorded as financing cost - extinguishment of debt	**-**	**-**	**3,142**	**-**

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

In December 2021, the Company signed a definitive financing agreement with three Development Financial Institutions for a Senior Debt Facility totaling $110.0 million for the Company's wholly owned geothermal subsidiary in Nicaragua (the "Debt Re-Financing"). This Senior Debt Facility replaced the Senior and Subordinated project loans in Nicaragua. The funding of the Debt Re-financing was completed on February 11, 2022.

The maturity date of the Senior Debt Facility is December 22, 2036, and the interest rate is LIBOR plus 7% prior to the Binary Plant completion date, and LIBOR plus 6.75% thereafter. In the absence of LIBOR, the agreement provides guidance for using either the spread mentioned plus SOFR or spread plus SOFR Adjustment; or the spread plus Compound SOFR or spread plus Compound SOFR Adjustment.

Given the substantially different terms and conditions of the Senior Debt Facility, the Company determined the transaction to be extinguishment of the Phase I and Phase II senior and subordinated debt facilities and the Senior Debt Facility being a new financial liability. Accordingly, the $3.2 million difference between the carrying amount of the Phase I and Phase II senior and subordinated debt facilities and the consideration paid was recognized as a net loss and included within Accretion of debt, under Finance Costs (Note 6). Transaction costs incurred in the amount of $4.5 million were deferred and will be amortized over the term of the Senior Debt Facility.

As at September 30, 2022, interest rate on the Senior Debt Facility was LIBOR plus 7%, resulting in 9.29%, whereas the effective interest rate was estimated to be 9.89%. Upon extinguishment, the interest rate on the Phase I and

Phase II senior facilities were LIBOR plus 5.5%, resulting in 7.83% and 7.39% of interest, respectively. Interest on Phase I and Phase II Subordinated Debt was a combination of 6% coupon and a return enhancement feature that resulted in an approximately 13% interest rate.

As a result of the Senior Debt Facility new financial and operational covenants are currently in place. As of September 30, 2022, the Company is compliant with all these covenants.

No subordinated loan was taken in the Re-financing debt. All debt drawn on the Credit Agreements is non-recourse to the Company and all its subsidiaries other than PENSA and SJPIC.

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

On June 5, 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.

As of September 30, 2022, the Company is compliant with all the covenants required under the APG Credit Agreement.

(iii) Summary of Generación Andina Credit Agreement

As at September 30, 2022, 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 September 30, 2022, no agreements with third parties to use GA's transmission line have been signed.

As of September 30, 2022, the Company is compliant with all the covenants required under the Generación Andina Credit Agreement.

(iv) Summary of Canoa 1 Credit Agreement

On June 28, 2022, the Company completed the acquisition of Emerald, and assumed an obligation with Fondo de Inversion Cerrado Libre para el Desarrollo de Infraestructuras Dominicanas ("AFI Universal") and Corporación Interamericana para el Financiamiento de Infraestructura, S.A. ("CIFI") for a $37.0 million credit facility entered on December 10, 2020 (Note 4). The loan has a term of 17 years, a 7% fixed interest rate, and requires quarterly payments of principal and interest. Financing costs totaling $1.7 million were incurred from this transaction, which are deferred over the term of the loan. The terms and conditions of the loan were not modified upon the acquisition of Emerald. The preliminary fair value assigned to the obligation assumed was $33.9 million, and it may change once the final allocation is determined.

As of September 30, 2022, the Company is compliant with all the covenants required under the Canoa 1 Credit Agreement.

(v) Summary of HSJM Credit Agreement

On September 7, 2022, the Company completed the acquisition of HSJM, and assumed obligations with Banco Pichincha for three credit facilities totaling $8.0 million, which are due between May 2023 and July 2028 (Note 4). These loans have fixed interest rates of 7.91% and 7.95% and require monthly payments of principal and interest. The terms and conditions of these loans were not modified upon the acquisition of HSJM. The preliminary fair value assigned to the obligation assumed was $6.2 million, and it may change once the final allocation is determined.

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

(vi) Summary of Debentures

On February 10, 2021, a total of 3,670,000 senior unsecured convertible debentures were converted into 244,667 common shares.

On June 21, 2022, 42,000 senior unsecured convertible debentures were converted into 2,800 common shares.

On August 3, 2022, a total of 1,542,000 senior unsecured convertible debentures were converted into 102,800 common shares.

On August 10, 2022, the Company issued a notice indicating that redemption of the Debentures was to occur on September 20, 2022 ("redemption date"). Accordingly, debenture holders had the right to convert their Debentures into common shares at a conversion price of CAD$15.00 per unit; therefore, a debenture holder converting the principal amount would receive 66.67 shares for each CAD$1,000 principal amount of Debentures converted, out of which fractional amounts are settled in cash. All debenture holders who did not notify their conversion two business days prior to redemption date, would have the Debentures redeemed for cash in accordance with the redemption process. As a result of the conversion, the Company issued 1,294,799 common shares for a total of $15.0 million and settled $0.2 million in cash with the debenture holders that did not convert and recognized a total gain of $4.4 million which is presented in Other gains (losses) in the statement of operations for the three-month and nine-month period ended September 30, 2022.

16. Share Capital

	Number of Shares Authorized	Number of Shares Issued and Fully Paid	Number of Shares Reserved for Issue Under Stock Options (Exercisable)	Number of Shares Reserved for Issue Under 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, 2021	16,306,299	15,706,299	262,823	-	155,132	1,200,000
Shares issued in Public Offering (i)	2,556,450	2,556,450	-	-	-	-
Shares issued on conversion of Debentures (ii)	244,667	244,667	-	-	-	-
Shares issued in connection with RSUs (b)	114,637	114,637	-	-	(114,637)	-
RSUs settled in cash (b)	-	-	-	-	(40,495)	-
Shares issued in connection with UEG Acquisition (iii)	200,000	800,000	-	-	-	(800,000)
Reversal of UEG acquisition shares no longer payable (iii)	-	-	-	-	-	(300,000)
Shares issued on exercise of stock options	6,042	6,042	(6,042)	-	-	-
Balance at September 30, 2021	19,428,095	19,428,095	256,781	-	-	100,000
Shares issued on exercise of stock options	97,281	97,281	(97,281)	-	-	-
Stock options vested	-	-	36,000	-	-	-
Balance at January 1, 2022	19,525,376	19,525,376	195,500	-	-	100,000
Shares issued in connection with UEG Acquisition *(iii)*	100,000	100,000	-	-	-	(100,000)
Stock options vested	-	-	40,000	-	-	-
Shares issued on conversion of Debentures (iv)	1,400,399	1,400,399	-	-	-	-
Balance at September 30, 2022	**21,025,775**	**21,025,775**	**235,500**	**-**	**-**	**-**

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

(ii) On February 10, 2021, a total of 3,670,000 senior unsecured convertible debentures were converted into 244,667 common shares.

(iii) On March 26, 2021, the Company entered into an agreement with Union Group International Holdings Limited ("UGIH") to settle the previously reserved shares on the Union Energy Group ("UEG") acquisition with the issuance of 900,000 shares, of which 100,000 were reserved and issued subsequently on February 2, 2022. As a result of the agreement, the Company has 300,000 previously reserved acquisition shares that are no longer payable.

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

(iv) During the nine months ended September 30, 2022, a total of 21,006,000 senior unsecured convertible debentures were converted into 1,400,399 common shares.

The Company's Omnibus Long-Term Incentive Plan (the "LTIP") adopted in June 2012 and most recently amended and approved in June 2021, provides that equity awards may be granted to directors, senior officers, employees and consultants of the Company or any of its affiliates and employees of management companies engaged by the Company.

(a) Stock options

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

The following table summarizes the information related to stock options outstanding and exercisable as at September 30, 2022:

	Outstanding Options			Exercisable Options	
Range $CDN	Number of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price ($CDN)	Number of Options Outstanding	Weighted Average Exercise Price ($CDN)
0.00 - 99.99	588,000	1.41	$ 16.48	235,500	$ 15.31

On August 9, 2021, the Company issued 120,000 options with an exercise price of $18.44 (CAD) and a fair value price at grant of $4.87 (CAD). Options were valued using a Black-Scholes pricing model using an assumed life expectancy of 4 years.

On March 23, 2022, the Company issued 10,000 options with an exercise price of $17.45 (CAD) and a fair value price at grant of $2.43 (CAD). Options were valued using a Black-Scholes pricing model using an assumed life expectancy of 4 years.

On April 1, 2022, the Company issued 15,000 options with an exercise price of $16.98 (CAD) and a fair value price at grant of $2.35 (CAD). Options were valued using a Black-Scholes pricing model using an assumed life expectancy of 4 years.

On June 28, 2022, the Company issued 15,000 options with an exercise price of $20.07 (CAD) and a fair value price at grant of $3.22 (CAD). Options were valued using a Black-Scholes pricing model using an assumed life expectancy of 4 years.

For the three and nine months ended September 30, 2022 and 2021, the Company recognized shared-based compensation expense associated with options, with a corresponding increase in contributed surplus, of $0.2 million and $0.1 million, respectively.

(b) Deferred Share Units ("DSUs")

As at September 30, 2022, 19,629 DSUs are outstanding. On August 9, 2021, the Company issued 5,110 DSUs at a total grant date value of $75,000. On December 29, 2021, the Company issued 6,016 DSUs at a total grant date value of $80,000. On March 31, 2022, the Company issued 1,479 DSUs at a total grant date value of $20,000. On June 30, 2022, the Company issued 993 DSUs at a total grant date value of $15,000. On September 30, 2022, the Company issued 1,264 DSUs at a total grant value of $15,000. In addition, as of September 30, 2022, a total of 1,541 DSUs have been granted as part of the dividend reinvestment policy.

Participants may redeem DSUs within the 90 days following termination from the Company by providing a notice of redemption specifying an election to receive either a cash payment or Company shares or both. Until the liability is settled, the Company will remeasure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss as part of share-based compensation for the period.

For the three- and nine-months period ended September 30, 2022 and 2021, the Company recognized shared-based compensation expense associated with DSUs, with a corresponding increase in contributed surplus, of $0.2 million and $0.1 million, respectively.

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

17. (Loss) Earnings per Share

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

	Three Months Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Total (loss) earnings attributable to owners of the Company	**$ (1,491)**	$ 2,175	**$ (502)**	$ 1,422
Basic weighted average number of shares outstanding	**20,253,570**	19,424,089	**19,825,079**	18,575,137
Basic (loss) earnings per share	**$ (0.07)**	$ 0.11	**$ (0.03)**	$ 0.08

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

	Three Months Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Stock options - 8/9/2021 grant date	**-**	-	**120,000**	-
Total anti-dilutive instruments	**-**	-	**120,000**	-

18. 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, 2022 and December 31, 2021, 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 15.

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

(b) Financial risk management

The Company is exposed to financial risks arising from its financial assets and liabilities. The financial risks include market risks relating to interest rates, foreign exchange rates and commodity prices.

Interest rate risk

The Senior Debt Facility bears interest at an applicable margin of 7% with interest payments that are variable based upon 3-month LIBOR. The total rate as at March 31, 2022, was 7.51%. The Company determined that a hypothetical 10 basis point increase in the 3-month LIBOR would result in an increase of $0.1 million in financing costs for the period ended September 30, 2022.

Management mitigates this risk by entering into fixed-rate financing agreements or, from time-to-time, may enter into hedging agreements.

Currency risk

The Company operates internationally and is exposed to risks from changes in foreign currency rates. The functional currency of the Company is the US dollar and currently most of the Company's transactions are denominated in US dollars. Further, the Company translates significant amounts received in local currency to US dollars immediately. As at September 30, 2022 and 2021, the Company had cash and accounts payable of $4.7 million CAD and $27.1 million CAD, respectively. As at September 30, 2022, the Company had cash, accounts receivable, prepaid contractor advances and accounts payable of Sol$3.1 million held in its Peruvian subsidiaries, and Peso$0.2 million held by its Dominican Republic 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 $0.3 million for the period ended September 30, 2022. The Company determined that a 10% change in the Peruvian Soles and Dominican Pesos against the US dollar would have impacted total loss and comprehensive loss by $0.1 million for the period ended September 30, 2022. The Company does not enter into any foreign exchange contracts to mitigate this risk.

Commodity prices

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

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

Credit risk

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

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

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

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

From the credit risk assessment performed during the year, the Company has concluded that exposure to credit risk related to the amounts receivable from customers is not material, as at September 30, 2022.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.

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

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they become due. The Company manages liquidity risk by ensuring that it has sufficient cash, credit facilities and other financial resources available to meet its obligations.

The Company forecasts cash flows for a period of 12 months to identify financial requirements. These requirements are met through a combination of cash flows from operations, credit facilities and accessing capital markets.

The following are maturities for the Company's financial liabilities as at September 30, 2022:

	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years	Total
Accounts payable and accrued liabilities	$ 14,918	$ -	$ -	$ -	$ 14,918
Debt, current and long-term	13,204	31,611	31,256	137,677	213,748
Interest obligations	17,148	28,467	22,958	39,756	108,329
	$ 45,270	**$ 60,078**	**$ 54,214**	**$ 177,433**	**$ 336,995**

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