POLARIS

POLARIS INFRASTRUCTURE INC.
Management's Discussion and Analysis
For the Year Ended December 31, 2018 **March 6, 2019**

INTRODUCTORY COMMENTS

General

The following management's discussion and analysis ("MD&A") focuses on significant factors that affected Polaris Infrastructure Inc. and its subsidiaries ("Polaris Infrastructure," "we" or the "Company") during the relevant reporting period and to the date of this report. It contains a review and analysis of the financial results for the year ended December 31, 2018, identifies business risks that the Company faces and comments on the financial resources required for the development of its business.

This MD&A supplements, but does not form part of, the consolidated financial statements of the Company and the notes thereto for the year ended December 31, 2018. Additional information relating to the Company such as the Annual Information Form ("AIF") can be found on the System for Electronic Disclosure and Retrieval ("SEDAR") at www.sedar.com. Unless stated otherwise, the information in this MD&A is current as at March 6, 2019.

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

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

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

Forward-looking Statements

This MD&A contains forward-looking information or future-oriented financial information and, as such, is based on an assumed set of economic conditions and courses of action. Please refer to the cautionary note at the end of this MD&A regarding the risks associated with the forward-looking information and the risk factors set out under the headings "RISKS AND UNCERTAINTIES" in this MD&A, and "Forward Looking Statements" and "Risk Factors" in the Company's AIF for the year ended December 31, 2018 available on SEDAR at www.sedar.com.

BUSINESS OVERVIEW AND STRATEGY

Polaris Infrastructure is a Toronto-based company engaged in the operation, acquisition and development of renewable energy projects in Latin America. Currently, the Company operates a 72 MW geothermal project located in Nicaragua, a 5 MW run-of-river hydroelectric facility in Peru, and is completing the construction of two hydroelectric projects in Peru with commercial operation expected in Q4 2019.

Polaris Infrastructure's mission is to be a Latin America-focused renewable power project developer and operator, while providing superior shareholder returns. Senior management has extensive experience in critical areas of renewable finance, development and operations. The board of directors of the Company (the "Board") is comprised of individuals with a broad range of industry and business expertise who are well qualified to provide oversight and strategic direction to the Company.

Events, transactions and activities relating to Polaris Infrastructure's properties which occurred during the year ended December 31, 2018 and to the date of this MD&A are discussed below.

Recent Developments

San Jacinto Nicaragua Operations Commentary

Average generation at the San Jacinto geothermal power plant (the "San Jacinto project") during the fourth quarter of 2018 was above management's expectation entering the quarter. Net power generation was 64.9 MW, higher than the 57.8 MW in the fourth quarter of the prior year, and down marginally from 65.4 MW in the third quarter of 2018. The year-over-year increase reflects the additional steam flows from new wells connected in the first half of fiscal 2018. The small quarterly decrease reflects the fact that the overall field is still settling in as a result of the connection of the production well SJ 12-5 in March 2018. When new, large wells such as SJ 12-5 are put online, it can take approximately 6-12 months to see where both the new well and the overall field will settle. Management thinks that we are close to such a settling point as overall steam flows have been relatively consistent over the second half of fiscal 2018.

2017/2018 San Jacinto Drilling Program

The Company's wholly-owned subsidiary, Polaris Energy Nicaragua S.A. ("PENSA"), commenced the 2017/2018 drilling program at the San Jacinto site in late April 2017. The primary objective of the drilling program was to increase average generation to as close as possible to the 72 MW (net) level supported by both the power purchase agreement ("PPA") as well as installed turbine capacity. The 2017/2018 drilling program consisted of the commissioning of three new production wells, a new injection well and certain above-ground investments, with a total program budget of $29.6 million.

Drilling of the second new production well as part of the 2017/2018 San Jacinto drilling program at well SJ 12-4 was completed on November 1, 2017. A total loss of drilling fluids was experienced, indicating a zone of high permeability and the well was completed at a depth of 2,624 metres. After a period of thermal recovery, SJ 12-4 was successfully discharged on January 16, 2018, and after eight months of operations, SJ 12-4 is generating 1-2 MW.

The third new production well of the 2017/2018 San Jacinto drilling program, SJ 12-5, was completed in early January 2018. A loss of drilling fluids was experienced, indicating a zone of high permeability and

the well was completed at a depth of 2,416 metres. Tests concluded during and after drilling suggest that SJ 12-5 has higher permeability and temperature than SJ 12-4. SJ 12-5 was connected to the plant in early March 2018 following completion of planned turbine maintenance activities, though due to separation capacity constraints, the well has been restricted and SJ 12-3 was temporarily taken out of service. After nine months of operation, SJ 12-5 is producing at a level of approximately 10-11 MW.

To best accommodate and efficiently process anticipated steam flows of all production wells, including SJ 12-4, SJ 12-5, and SJ 12-3, a new separator station was commissioned in April 2018 on pad 12. This infrastructure investment, along with permanent piping installed, allowed for optimization of above-ground operations, and ultimately the connection of all wells to the San Jacinto project in April 2018.

2017/2018 Maintenance Program

Maintenance of the Unit 3 turbine was successfully completed in February 2018 and resulted in downtime of approximately two and a half weeks. During this period, average generation was limited to approximately 32 MW (net). Given similar maintenance was completed in February 2017 on Unit 4, on a year-over-year comparative basis, the impact of turbine maintenance on 2018 first quarter results were minor. We are pleased to have completed these important preventative maintenance activities on both turbines at the San Jacinto project, which provided for consistent operation throughout much of 2018.

Peru Acquisition Commentary

On October 30, 2018, the Company acquired from Union Group International Holdings Limited ("Union Group") 100% of the issued and outstanding shares of Union Energy Group Corp. ("UEG"), which owns, operates and develops run-of-river hydro projects located in Peru. As part of the UEG acquisition, the Company acquired Canchayllo, a single 5 MW project in operation since 2015, Generación Andina, which consists of two projects (8 de Agosto and El Carmen) in the late stages of construction expected to total 28 MW of generating capacity, Karpa, a single 20 MW (expected) project with a PPA in place, as well as a portfolio of early stage development projects expected to aggregate to approximately 189 MW.

Consideration for the UEG acquisition consisted of the following:

- 600,000 common shares in the capital of the Company ("Company Shares"), to be delivered to Union Group on the later of the acquisition date and the date on which Union Group delivers to the Company a tax basis certificate obtained from the Peruvian Tax Administration (SUNAT) to certify the cost of the purchased shares (the "Peruvian Tax Certificate"). As of the date of this MD&A, the Peruvian Tax Certificate has not been delivered to the Company;
- 300,000 common share purchase warrants of the Company (each, a "Warrant"), to be delivered to Union Group on the later of the acquisition date and the date on which Union Group delivers to the Company the Peruvian Tax Certificate. Each Warrant affords Union Group the right to purchase a Company Share at an exercise price of CAD$11.76888 for a period of two years following the acquisition date;
- Subject to the fulfillment of certain conditions by Union Group, up to 600,000 Company Shares, to be delivered to Union Group on the earlier of: (i) the date that is ten days following the date on which the latter of (A) the El Carmen hydroelectric project located in the Monzon district, Huamalies province, Peru (the "El Carmen Project"), and (B) the 8 de Agosto hydroelectric

project located in the Monzon district, Huamalies province, Peru (the "8 de Agosto Project" and, together with the El Carmen Project, the "Projects") achieve commercial operation as certified by the System Economic Operation Committee of Peru ("COD"); and (ii) the date that is 30 months from the acquisition date.

In connection with a reorganization of the direct and indirect subsidiaries of UEG (the "Subsidiaries") that occurred concurrently with the closing of the acquisition of UEG, Polaris agreed to issue the following consideration to former shareholder lenders of the Subsidiaries (the "Shareholder Lenders") in exchange for the disposition of all of such Shareholder Lenders' equity interest in the Subsidiaries:

- Payment of Company Shares to certain Shareholder Lenders on the basis of $250,000 per each GWh in excess of 180 GWh generated by the Projects measured based on the annual average delivery to the Peruvian national grid during the first two years following COD, and which amount shall be: (i) up to an aggregate maximum of $7,400,000, and (ii) payable on the date that is no later than 90 days following the two year anniversary date of COD; and

- Cash payments to certain Shareholder Lenders of an aggregate amount of $275,049 upon achievement of commercial operation of the 8 de Agosto Project and an aggregate amount of $121,836 upon achievement of commercial operation of the El Carmen Project.

Construction of the Generación Andina projects will require contributions from the Company totaling approximately $38 million, $8 million of which was contributed in 2018. In addition, the Company incurred $1.6 million in costs and expenses, including legal fees in connection with the acquisition of UEG and its subsidiaries. The aggregate contributions and costs incurred (the "Additional Project Capital"), which include the $1.6 million in transaction costs and expenses, will accrue a 15% annual return from the acquisition date, October 30, 2018, up to the COD of both projects under the terms of the Generación Andina amended and restated term facility agreement with Deutsche Investitions- und Entwicklungsgesellschaft and Nederlandse Financierings-Maatschappij voor de Ontwikelingslanden N.V., which amount will be capitalized upon COD. After COD, a 15% return on investment on the Additional Project Capital is payable to the Company semi-annually out of cash flows from the Generación Andina projects, after debt service.

Dividend

On February 6, 2019, the Board authorized and declared the Company's thirteenth quarterly dividend, namely a dividend of $0.15 per outstanding Company Share. This dividend was paid on February 22, 2019 to shareholders of record at the close of business on February 15, 2019.

The Board of Polaris Infrastructure remains committed to paying a quarterly dividend and will evaluate further dividend payments as appropriate.

OPERATING PROJECTS

San Jacinto-Tizate – San Jacinto, Nicaragua

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

PENSA has a PPA in place for the San Jacinto project with Nicaraguan power distributors Disnorte-Dissur, subsidiaries of the Spanish utility TSK-Melfosur Internacional. PENSA has entered into the San Jacinto exploitation agreement with the Nicaraguan Ministry of Energy and Mines to develop and operate the San Jacinto project. Under the PPA, the Company generated 543,312 MWh (average 62.0 MW (net)) and 490,765 MWh (average 56 MW (net)) for the years ended December 31, 2018 and 2017, respectively. These production figures are net of all plant downtime, both planned and unplanned. For the years ended December 31, 2018 and 2017, the San Jacinto project generated revenue of $68.5 million and $60.1 million, respectively.

As of December 31, 2018, PENSA held cash of $12.3 million to fund plant operations, $2.8 million in a reserve account to fund operating capital expenditures and maintenance activities and $12.8 million held as debt service reserves. During the year ended December 31, 2018, PENSA repaid $12.5 million of principal on its San Jacinto project credit facilities. As at December 31, 2018, PENSA had $158.7 million outstanding on those credit facilities.

Canchayllo – Canchayllo, Peru

Canchayllo is a run-of-river hydro project with a rated capacity of approximately 5 MW located in the Canchayllo district of Peru. The plant was put into operation on January 1, 2015 and has a US dollar-denominated PPA with the Peruvian Ministry of Energy and Mines ("MEM") that is effective until December 31, 2034. The current price of the PPA is $47.40 per MWh and has an inflation adjustment mechanism until the end of the PPA. The plant is expected to produce approximately 28,000 to 31,000 MWh per year.

DEVELOPMENT PROPERTIES

Casita Project

The Casita-San Cristobal project (the "Casita project") is located in northwest Nicaragua in the Department of Chinandega. In 2008, through an international bid, Cerro Colorado Power, S.A., an 85.5% owned subsidiary of the Company, was awarded the Casita project exploration concession with an area of 100 km^2.

The Company has had previous discussions with The World Bank Group and the Nicaragua Ministry of Energy and Mines with respect to financing for purposes of completing an initial drilling program at the Casita project. To the extent the Company is able to complete the contemplated financing, it would enable an exploration drilling campaign at the Casita project without requiring cash flow from our San Jacinto project, and on a non-recourse basis to both the Company and PENSA. As of December 31, 2018, the Company had $11.5 million in accumulated costs related to the Casita project.

Generación Andina (El Carmen and 8 de Agosto projects)

El Carmen (8 MW expected capacity) and 8 de Agosto (20 MW expected capacity) are two run-of-river hydro projects in the Huanuco region of Peru that are in late stages of construction. El Carmen is

expected to be completed in the third quarter of 2019 and 8 de Agosto is expected to be completed in the fourth quarter of 2019.

El Carmen has a US dollar-denominated PPA with MEM with an inflation adjustment that is effective until October 2039. The starting price of the PPA is $55.90 per MWh. The plant is expected to produce approximately 40,000 to 50,000 MWh per year once it achieves commercial operation.

8 de Agosto has a US dollar-denominated PPA with MEM with an inflation adjustment that is effective until October 2039. The starting price of the PPA is $53.90 per MWh. The plant is expected to produce approximately 130,000 to 140,000 MWh per year once it achieves commercial operation.

The PPAs for both projects are with MEM and are valid provided that the projects achieve commercial operation no later than October 28, 2019.

Both projects will be connected to the national grid through a 60 km transmission line that is included in the asset package and is approximately 70% constructed. Polaris Infrastructure will undertake the completion of the transmission line. Once both El Carmen and 8 de Agosto are online, the transmission line will only be at approximately 50% of its capacity. While not anticipated in the short-term, it is possible that the excess capacity on the transmission can be sold to other projects that may be developed in the region.

Generación Andina Projects – Financial Restructuring

Construction was halted on the Generación Andina projects, El Carmen and 8 de Agosto, in 2016 due to technical and financial issues. Approximately $80 million was invested in the projects by the previous owners and the project lenders. As a condition of the Company's acquisition of the Generación Andina projects, the project lenders agreed to a restructuring of the existing debt of $55.1 million (plus $12.7 million of accrued interest). The revised terms of the project debt are such that the project lenders will receive minimum payments of $44 million over 18 years with the first semi-annual payment of $1 million to occur in December 2020. Such minimum payments include both principal and interest. The lenders are eligible to receive additional revenue-linked payments based upon power delivery from the Generación Andina projects exceeding a prescribed minimum threshold and/or the transmission line contributing third party revenue, but only to the extent that Polaris Infrastructure has first earned a minimum 15% cumulative annual return on the capital it invests to complete the Generación Andina projects.

It is anticipated that the Generación Andina projects and the transmission line will require net capital investment of approximately $38 million from the Company in order to achieve commercial operations. This amount will be funded by the Company over the 12-month construction period with present and future cash on hand.

Certain vendors will receive additional Company Shares if, after the first two years of commercial operation, the Generación Andina projects have exceeded targeted levels of generation based on a predetermined formula. A maximum of approximately 970,000 additional Company Shares would be issued to certain vendors should generation achieve the top end of the target range.

The Company has engaged several firms to complete the works including local contractor GCZ Ingenieros S.A.C. ("GCZ"). GCZ is a Lima-based firm that has over 20 years of experience in the

construction of small to medium size run-of-river hydro projects in Peru. Early stage works have already commenced on the projects to ensure that expected COD timelines are met for both projects.

Karpa

The Karpa project is a development stage project with an expected 20 MW capacity located in the Huanuco region of Peru. Karpa has a US dollar-denominated PPA with MEM with an inflation adjustment provision at $55.90 per MWh. Construction has not yet commenced on Karpa and the Company plans to update its assessment with respect to the project in the first half of 2019.

Other Peru Development Projects

The early stage development pipeline in Peru consists of four small scale projects (i.e. < 20 MW expected per project) totaling approximately 70 MW and one large scale project of approximately 119 MW.

Other US Development Projects

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

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

SUBSEQUENT EVENTS

Any events occurring between December 31, 2018 and March 6, 2019 related to the Company's projects and operations are incorporated in the "Business Overview and Strategy" section above under the heading "Recent Developments."

FINANCIAL OVERVIEW

Selected Annual Information

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

(in thousands, except for loss per share)	For the Year Ended December 31, 2018	For the Year Ended December 31, 2017	For the Year Ended December 31, 2016
Average production	62 MW (net)	56 MW (net)	52.4 MW (net)
Revenue	$ 68,824	$ 60,107	$ 54,659
Adjusted EBITDA [(1)]	57,848	50,302	45,473
Net earnings (loss) and comprehensive loss attributable to owners of the Company	12,137	1,664	(4,261)
Total loss per share attributable to owners of the Company	$0.77	$0.11	($0.27)
Cash	37,809	37,217	45,739
Restricted cash	8,612	1,509	1,505
Total current assets	54,098	50,167	58,682
Total assets	467,858	407,258	409,248
Total long-term liabilities	229,066	198,209	199,829
Total equity attributable to the owners of the Company	198,804	187,624	194,910

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

Review of Results for the Year Ended December 31, 2018

During the years ended December 31, 2018 and 2017, the San Jacinto project generated average production of 62.0 MW (net) and 56.0 MW (net), respectively. The Company's revenue of $68.8 million was 14.5% higher than in 2017, driven by an 11% increase in average generation combined with the 3% annual tariff increase under the PPA effective for 2018. Revenue from the Canchayllo project provided $0.3 million in revenue for the year ended December 31, 2018.

Direct costs of energy production for the year ended December 31, 2018 (other than depreciation and amortization expense) of $7.2 million were up by $0.9 million versus the same period in 2017, principally due to slightly higher employee and maintenance costs, higher property and municipal taxes on the San Jacinto project and higher insurance premiums. Depreciation and amortization expense associated with energy production (included in direct costs) was $22.9 million for the year ended December 31, 2018, up from $21.7 million in the prior year. The increase was driven by the additional assets placed into service in connection with the 2017/2018 drilling program.

General and administrative expenses for the year ended December 31, 2018 of $4.3 million were relatively flat as compared to the year ended December 31, 2017.

For the year ended December 31, 2018, Adjusted EBITDA totaled $57.8 million, as compared to $50.3 million for the same period in 2017, an increase of $7.5 million. The overall improvement was a result of an $8.7 million increased contribution from the San Jacinto project, partly offset by an increase in direct costs, general and administrative costs (ignoring share-based compensation and acquisition costs) and operating costs, net of decommissioning liabilities adjustments. *See Use of Non-GAAP Performance Measures section below for reconciliation of Adjusted EBITDA to Total loss and comprehensive loss.*

For the year ended December 31, 2018, finance costs of $16.6 million were recorded, a decrease of $0.7 million compared to the year ended December 31, 2017. The decrease is attributed to a reduction in interest expense driven by the lower average principal balance of debt outstanding.

For the year ended December 31, 2018, other gains of $1.2 million were recognized compared to other losses of $0.6 million for the year ended December 31, 2017. The Company recognized a provisional gain on acquisition of $0.9 million in 2018, which is subject to change as fair values of assets and liabilities acquired are finalized. The Company also recognized a $0.8 million gain on extinguishment of debt related to a loan to a former shareholder.

The Company recognized net earnings of $12.1 million for the year ended December 31, 2018 compared to net earnings of $1.7 million for the same period in 2017, an increase of $10.4 million. This significant increase reflects fundamentally the improvement in operating results stemming from the drilling programs undertaken in 2015/2016 and 2017/2018.

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

During the year ended December 31, 2018, the Company incurred costs of $8.9 million for additions to its construction in progress and property, plant and equipment ("PP&E"), which was related to the San Jacinto project and the Generación Andina projects.

Summary of Unaudited Quarterly Results

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

(in thousands, except for earnings (loss) per share)	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Average production	64.9 MW (net)	65.4 MW (net)	63.7 MW (net)	50.4 MW (net)
Revenue	$ 18,286	$ 18,151	$ 17,657	$ 14,730
Direct cost of energy production	(8,052)	(7,562)	(7,469)	(7,060)
General and administrative expenses	(2,561)	(475)	(360)	(879)
Other operating costs	(287)	(52)	(36)	(83)
Adjusted EBITDA	14,860	15,503	15,138	12,348
Finance costs	(4,395)	(4,108)	(3,850)	(4,239)
Net earnings attributable to owners of the Company	3,735	3,980	3,910	512
Earnings per share (basic and diluted) attributed to owners of the Company	$0.23	$0.25	$0.25	$0.03
Cash	37,809	39,916	34,485	34,756
Restricted cash	8,612	1,507	1,505	1,509
Total equity attributable to Owners of the Company	198,804	189,104	187,442	185,850

(in thousands, except for earnings (loss) per share)	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Average production	57.8 MW (net)	56.7 MW (net)	59.2 MW (net)	50.4 MW (net)
Revenue	$ 15,559	$ 15,266	$ 15,913	$ 13,368
Direct cost of energy production	(7,164)	(7,015)	(6,963)	(6,983)
General and administrative expenses	(1,187)	(800)	(1,320)	(952)
Other operating costs	(84)	(93)	(89)	(112)
Adjusted EBITDA	12,940	12,886	13,581	10,895
Finance costs	(4,335)	(4,356)	(4,354)	(4,296)
Net earnings (loss) attributable to owners of the Company	752	890	1,189	(1,167)
Earnings (loss) per share (basic and diluted) attributed to owners of the Company	$0.05	$0.06	$0.08	($0.07)
Cash	37,217	40,887	43,999	48,378
Restricted cash	1,509	1,510	1,508	1,505
Total equity attributable to Owners of the Company	187,624	188,932	189,997	192,056

Review of Results for the Quarter Ended December 31, 2018

During the three months ended December 31, 2018 and 2017, the San Jacinto project generated average production of 64.9 MW (net) and 57.8 MW (net), respectively, reflecting the increased steam flows from wells connected in 2017 and 2018. These production figures are net of all plant downtime, both planned and unplanned. The Company's revenue of $18.3 million was up by $2.7 million versus 2017, principally as result of a 15% increase in average production, the 3% annual tariff increase under the PPA, and the addition of Canchayllo project revenues of $0.3 million.

Direct costs of energy production (other than depreciation and amortization) for the three months ended December 31, 2018 of $2.2 million were up by $0.5 million compared to the same period in 2017 as a result of increased maintenance, property and municipal taxes, and insurance costs. Depreciation and amortization expense associated with energy production (included in direct costs) for the three months ended December 31, 2018 of $5.8 million was $0.4 million higher than the same period in 2017, driven by the increase in average PP&E balance stemming from drilling costs put into service.

General and administrative expenses for the three months ended December 31, 2018 increased $1.4 million to $2.6 million, compared to the same period in 2017, principally as result of $1.6 million of costs recognized in connection with the UEG acquisition.

For the three months ended December 31, 2017, Adjusted EBITDA totaled $14.9 million, as compared to $12.9 million for the same period in 2017. The increase was a result of increased contributions from the San Jacinto project, offset by modest increase in general and administrative costs (ignoring share-based compensation and acquisition costs). *See Use of Non-GAAP Performance Measures section below for reconciliation of Adjusted EBITDA to Total loss and comprehensive loss.*

On a quarter over quarter basis, Adjusted EBITDA was down from $15.5 million to $14.9 million principally as a result of a $0.3 million increase in direct costs related to employee and maintenance costs and a $0.4 million increase in general and administrative costs related to salaries and benefits and professional fees, partially offset by a $0.1 million increase in revenue.

For the three months ended December 31, 2018, finance costs of $4.4 million were recorded, an increase of $0.1 million from the prior year period, reflecting an increase as a result of debt acquired for the Canchayllo project and an increase in market interest rates, offset by a decrease associated with reduction in average loan balance.

The Company recognized earnings of $3.7 million for the three months ended December 31, 2018 compared to $0.8 million for the same period in 2017. The $2.9 million increase in earnings was driven primarily by increased production from the San Jacinto project, offset by increases in direct costs, other operating costs and general and administrative expenses. There were no indicators of impairment as at December 31, 2018, and accordingly no impairment loss was booked in fourth quarter 2018.

During the three months ended December 31, 2018, the Company incurred costs of $4.2 million for additions to its construction and progress and PP&E, primarily related to the Generación Andina projects.

NON-GAAP PERFORMANCE MEASURES

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

	Three Months Ended		Year Ended	
(in thousands)	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Net earnings and comprehensive earnings (loss) attributable to Owners of the Company	$ 3,735	$ 752	$ 12,137	$ 1,664
Add (deduct):				
Net earnings (loss) attributable to non-controlling interest	-	11	62	10
Current and deferred tax expense	1,102	2,024	7,102	8,254
Finance costs	4,395	4,335	16,592	17,341
Interest income	(225)	(119)	(764)	(536)
Other losses	(1,620)	121	(1,181)	612
Acquisition costs	1,572	-	1,572	-
Decommissioning liabilities adjustments	243	(19)	207	(41)
Depreciation and amortization of plant assets	5,846	5,493	22,903	21,732
Share-based compensation	(188)	342	(782)	1,266
Adjusted EBITDA	$ 14,860	$ 12,940	$ 57,848	$ 50,302

LIQUIDITY AND CAPITAL RESOURCES

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

	Year Ended	
(in thousands)	December 31, 2018	December 31, 2017
Net cash from (used in)		
Operating activites	$ 37,410	$ 34,737
Investing activites	(14,736)	(25,097)
Financing activities	(22,083)	(18,166)
Foreign exchange gain on cash held in foreign currency	-	4
Increase (decrease) in cash	$ 591	$ (8,522)

Operating Activities

Net cash from operating activities for the year ended December 31, 2018 of $37.4 million increased by $2.7 million from the same period in 2017, principally resulting from a $2.7 million increase in revenue and a slight decrease in interest and return enhancement paid with respect to San Jacinto debt facilities.

Investing Activities

Net cash used for investing activities during the year ended December 31, 2018 of $14.7 million decreased $10.4 million compared to the same period in 2017. The decreased use of cash principally relates to reduced cash payments associated with the San Jacinto drilling program in 2018 relative to 2017, offset by cash payments associated with the Generación Andina projects.

Financing Activities

Net cash used for financing activities for year ended December 31, 2018 of $22.1 million increased by $3.9 million compared to the same period in 2017. The increased use of cash in 2018 reflects normal course repayment of project debt principal for San Jacinto and Canchayllo as well as dividends paid. Nicaragua withholding taxes related to future repatriation of capital from PENSA to the Company are anticipated to be limited to an effective rate of 1.5-2% of the total amount of each distribution for the foreseeable future.

Liquidity Risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they become due. The Company manages liquidity risk by seeking to arrange for it to have sufficient cash, available credit facilities and other financial resources to allow it to meet its obligations. The Company forecasts cash flows for a period of at least 12 months to identify financial requirements.

The Company has adequate liquidity to fund the routine capital expenditures associated with maintaining the San Jacinto project as well as completing the two hydroelectric projects in Peru with expected COD in fiscal Q4 2019.

The following are maturities for the Company's non-derivative and derivative financial liabilities as at December 31, 2018:

(in thousands)	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years	Total
Accounts payable and accrued liabilities	$ 25,965	$ -	$ -	$ -	$ 25,965
Debt, current and long-term	14,377	38,748	47,441	107,102	207,668
Interest obligations	12,237	20,930	14,853	13,172	61,192
	$ 52,579	$ 59,678	$ 62,294	$ 120,274	$ 294,825

The following are annual principal obligations on the Company's project credit facilities for the remaining terms of the loans:

(in $ thousands)	*San Jacinto*	*Canchayllo*	*Generacion Andina*
2019	13,709	668	-
2020	16,203	714	1,000
2021	18,055	766	2,010
2022	19,908	818	2,030
2023	21,760	876	2,050
2024	16,898	936	2,071
2025	14,703	242	2,092
2026	13,811	-	2,113
2027	14,534	-	2,134
2028	7,717	-	2,155
2029	1,384	-	2,177
2030	-	-	2,198
2031	-	-	2,220
2032	-	-	2,243
2033	-	-	2,265
2034	-	-	2,288
2035	-	-	2,310
2036	-	-	2,334
2037	-	-	4,726
2038	-	-	3,553
Total	$ 158,682	$ 5,020	$ 19,831

Interest on the San Jacinto project credit facilities is due and payable quarterly and is currently estimated to be approximately $3.2 million each quarter. Interest on the Canchayllo credit facilities is due and payable quarterly and is currently estimated to be $0.1 million each quarter. The Company plans to make payments of interest on the San Jacinto and Canchayllo project credit facilities out of its current cash and cash generated by operations. The Generación Andina credit facility bears no interest.

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

SHARE CAPITAL AND FINANCINGS

As of March 6, 2019, the Company had 15,678,299 common shares outstanding.

As of March 6, 2019, the Company had 300,000 share purchase warrants to be issued in connection with the UEG acquisition, expiring on October 30, 2020, with an exercise price of Cdn$11.77, which may be exchanged for one Company Share per Warrant.

As of March 6, 2019, there were 714,108 outstanding stock options, with a weighted average exercise price of Cdn$15.42 and 3.7 year remaining contractual life. The outstanding stock options' exercise prices range from Cdn$9.93 to Cdn$16.89 and expire from May 2020 to December 2023. Of the outstanding stock options, 242,565 are exercisable. The Company had 155,132 restricted shares outstanding as of March 6, 2019, all of which had vested. The Company had 4,839 deferred shares outstanding as of March 6, 2019, none of which had vested.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Recent Pronouncements Issued and Early Adoption of Standards

The Company has reviewed new and revised accounting pronouncements that have been issued and are effective for periods beginning on or after January 1, 2019. For details with respect to accounting standards issued but not yet effective please refer to Note 3(b) of the consolidated financial statements of the Company and the notes thereto for the year ended December 31, 2018.

Critical accounting estimates

The timely preparation of the consolidated financial statements requires that management make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the period. Such estimates primarily relate to unsettled transactions and events as at the date of the consolidated financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur.

Significant estimates and judgments made by management in the preparation of these consolidated financial statements are outlined in Note 3(b) of the consolidated financial statements of the Company and the notes thereto for the year ended December 31, 2018.

CONTROL MATTERS

Disclosure Controls and Procedures

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

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

Based on the evaluation of disclosure controls and procedures, the Chief Executive Officer and the Chief Financial Officer have concluded for the reasons discussed herein that the Company's disclosure controls and procedures and internal controls over financial reporting are effective as at December 31, 2018.

Internal Controls over Financial Reporting

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

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

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

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

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

RISKS AND UNCERTAINTIES

The risks and uncertainties described in the Company's AIF for the year ended December 31, 2018 are considered by management to be the most important in the context of the Company's business. The risks and uncertainties included in the AIF are not inclusive of all the risks and uncertainties the Company may be subject to and other risks may apply.

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains "forward-looking information" within the meaning of applicable Canadian securities legislation, which may include, but is not limited to, financial and other projections as well as statements with respect to future events or future performance, management's expectations regarding our growth, results of operations, and business prospects and opportunities. In addition, statements relating to estimates of recoverable energy "resources" or energy generation capacities are forward-looking information, as they involve implied assessment, based on certain estimates and assumptions, that electricity can be profitably generated from the described resources in the future. Such forward-looking information reflects management's current beliefs and is based on information currently available to management. Often, but not always, forward-looking statements can be identified by the use of words such as "plan", "expect", "is expected", "budget", "estimates", "goals", "intend", "targets", "aims",

"likely", "typically", "potential", "probable", "projects", "continue", "strategy", "proposed", or "believes" or variations (including negative variations) of such words and phrases or may be identified by statements to the effect that certain actions "may", "could", "should", "would" or "shall" be taken, occur or be achieved.

Forward-looking information in this MD&A includes, but is not limited to: the future development of the San Jacinto project; additional changes to the steamfield to increase production; the future development and execution of the recently acquired hydro projects in Peru; development of the Casita project including obtaining the necessary permits and financing to begin exploitation drilling and initial development; potential strategic alternatives and the potential sale of the Company's Orita project, Clayton Valley project and other geothermal and exploration and development properties.

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

Such forward-looking information is based on a number of material factors and assumptions, including: the Company's historical financial and operating performance; that contracted parties provide goods and/or services on the agreed timeframes; the success and timely completion of planned exploration and

expansion programs, including the Company's ability to comply with local, state and federal regulations dealing with operational standards and environmental protection measures; the Company's ability to negotiate and obtain PPAs on favorable terms; the Company's ability to obtain necessary regulatory approvals, permits and licenses in a timely manner; the availability of materials, components or supplies; the Company's ability to solicit competitive bids for drilling operations and obtain access to critical resources; the growth rate in net electricity consumption; continuing support and demand for renewables; continuing availability of government initiatives to support the development of renewable energy generation; the accuracy of volumetric reserve estimation methodology and probabilistic analysis used to estimate the quantity of potentially recoverable energy; environmental, administrative or regulatory barriers to the exploration and development of geothermal resources of the Company's properties; geological, geophysical, geochemical and other conditions at the Company's properties; the reliability of technical data, including extrapolated temperature gradient, geophysical and geochemical surveys and geothermometer calculations; the accuracy of capital expenditure estimates; availability of all necessary capital to fund exploration, development and expansion programs; the Company's competitive position; the ability of the Company to continue as a going concern and general economic conditions.

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

Additional information about the Company, including the Company's AIF for the year ended December 31, 2018, is available on SEDAR at www.sedar.com and on the Company's website at www.polarisinfrastructure.com.