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# **ETRION CORPORATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
THREE MONTHS ENDED MARCH 31, 2017

**Etrion is an independent power producer that develops, builds, owns and operates utility-scale solar power generation plants.**



*Shizukuishi solar power project in northern Japan*

Etrion is a solar platform with a proven track record operating assets in Japan and Chile. The Company has gross installed solar capacity of 109 MW plus 17 MW under construction, 45 MW of backlog projects and 200 MW of additional pipeline.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") for Etrion Corporation ("Etrion" or the "Company" and, together with its subsidiaries, the "Group") is intended to provide an overview of the Group's operations, financial performance and current and future business opportunities. This MD&A, prepared as of May 9, 2017, should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and accompanying notes for the three months ended March 31, 2017. Financial information is reported in United States dollars ("\$" or "USD"). However, certain material financial information has also been reported in Japanese yen ("¥") because the Company has its main business activities in Japan. The Company remains with an asset in Chile that is reported in \$. Exchange rates for the relevant currency of the Group with respect to the \$ and the € are as follows:

	€/¥	\$/¥
Closing rate at March 31, 2017	119.54	111.80
Closing rate at March 31, 2016	127.54	112.43
Three months average rate March 31, 2017	121.08	113.63
Three months average rate March 31, 2016	127.13	115.43

## NON-IFRS FINANCIAL MEASURES AND FORWARD-LOOKING STATEMENTS

The terms "adjusted net income (loss)", earnings before interest, tax, depreciation and amortization ("EBITDA"), "Adjusted EBITDA", "solar segments EBITDA" and "adjusted operating cash flow", used throughout this MD&A, are non-IFRS measures and therefore do not have standardized meanings prescribed by IFRS and may not be comparable to similar measures disclosed by other companies. The basis for calculation has not changed and has been applied consistently by the Company over all periods presented. Adjusted net income (loss) is a useful metric to quantify the Company's ability to generate cash before extraordinary and non-cash accounting transactions recognized in the financial statements (the most comparable IFRS measure is net income (loss) as reconciled on page 10). EBITDA, including solar segments EBITDA, is useful to analyze and compare profitability between companies and industries because it eliminates the effects of financing and certain accounting policy decisions, while Adjusted EBITDA is also useful because it excludes expenses that are expected to be non-recurring (the most comparable IFRS measure is net income (loss) as reconciled on page 10). In addition, adjusted operating cash flow is used by investors to compare cash flows from operating activities without the effects of certain volatile items that can positively or negatively affect changes in working capital and are viewed as not directly related to a company's operating performance. This MD&A contains forward-looking information based on the Company's current expectations, estimates, projections and assumptions. This information is subject to a number of risks and uncertainties, many of which are beyond the Company's control. Users of this information are cautioned that actual results may differ materially from the information contained herein. For information on material risk factors and assumptions underlying the forward-looking information, refer to the "Cautionary Statement Regarding Forward-Looking Information" on page 18.

## FIRST QUARTER 2017 HIGHLIGHTS

### OPERATIONAL HIGHLIGHTS

- The Company is advancing on the construction of the 13.2 MW<sup>1</sup> Komatsu project in northern Japan. The project is on budget and on schedule, with estimated connection to the electricity grid in the second quarter of 2018.
- Connected the first two solar park sites of the Aomori solar project in Japan in February 2017, representing 5.3 MW of the 9.5 MW total planned capacity. The remaining two solar park sites are currently under construction and are expected to be completed by the third quarter of 2017.
- Advanced on the development of the Kumamoto project in Japan with a total capacity of 45 MW. Management expects to reach financial close for this backlog project during the fourth quarter of 2017. The Company is also advancing the development of additional projects in Japan with a combined capacity of 200 MW.
- Produced 7.4 million kilowatt-hours ("kWh") of electricity from the Company's 39 MW portfolio comprising 8 solar power plant sites in Japan.
- Produced 42.5 million kWh of electricity from the Company's 70 MW solar power plant in Chile ("Project Salvador").

### FINANCIAL HIGHLIGHTS

- Generated revenues and solar segment EBITDA of \$5.2 million and \$2.3 million, respectively.
- Closed the first quarter of 2017 with a cash balance of \$73.2 million, \$43.0 million of which was unrestricted and held at the parent level, and working capital of \$52.6 million.
- On March 9, 2017, Etrion signed an amendment to the existing senior non-recourse project finance agreement with the Overseas Private Investment Corporation ("OPIC"), Project Salvador's lender, whereby all scheduled interest and principal payments between May 31, 2017 and May 31, 2018 will be deferred and due May 31, 2018, if the debt is not restructured or period extended by that date.

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<sup>1</sup> The capacity of power plants in this document is described in approximate megawatts ("MW") on a direct current basis, also referred to as megawatt-peak.



## FIRST QUARTER 2017 HIGHLIGHTS

USD thousands (unless otherwise stated)	Three months ended	
	Q1-17	Q1-16 (*)
<b>Electricity production (MWh)<sup>2</sup></b>	<b>49,922</b>	<b>48,732</b>
<b>Financial results</b>		
Revenues	5,198	3,762
Gross loss	(217)	(1,269)
EBITDA	57	(50)
Adjusted EBITDA	624	(50)
Net loss from continuing operations	(7,564)	(6,828)
Loss from discontinued operations	-	(1,719)
Net loss	(7,564)	(8,547)
Adjusted net loss	(4,091)	(3,600)
<b>Cash flow</b>		
Project cash distributions	3,342	-
Cash flow used in operations	(2,821)	(2,719)
Adjusted operating cash flow	278	106
	<b>March 31 2017</b>	<b>December 31 2016</b>
<b>Balance sheet</b>		
Total assets	312,364	288,641
Operational assets	198,148	187,644
Unrestricted cash at parent level	42,994	42,286
Restricted cash at project level	30,211	18,888
Working capital	52,615	45,257
Consolidated net debt on a cash basis	239,919	225,700
Corporate net debt (cash)	(429)	(98)
* 2016 comparative figures have been restated to exclude the Italian discontinued operation		

## BUSINESS REVIEW

### BUSINESS OVERVIEW

Etrion is an independent power producer that develops, builds, owns and operates utility-scale power generation plants. The Company owns and operates 109 MW of installed solar capacity in Japan and Chile. Etrion has 17 MW of solar projects under construction and several projects at different stages of development in Japan. The Company has three operational projects (eight solar park sites) and two projects under construction (three solar park sites) in Japan. In addition, the Company has an operating project in Chile. All operational projects in Japan benefit from revenues generated from Feed-in-Tariff ("FiT") power purchase agreements ("PPAs"), fixed price contracts with local utilities. The project in Chile benefits from a combination of a long term PPA contract and the spot/merchant market.

Etrion's current strategy is to focus exclusively on continuing to develop and operate solar power projects in Japan.

The Company's business model focuses on six key drivers for success: (1) stable revenues; (2) low risk jurisdictions; (3) strategic partnerships; (4) low equipment cost and operating expenses; (5) available long-term financing; and (6) low cost of debt.

The Company is listed on the Toronto Stock Exchange in Canada and the NASDAQ OMX Stockholm exchange in Sweden. Etrion has corporate bonds listed on the Oslo Stock Exchange in Norway. Etrion is based in Miami, Florida, United States with offices in Geneva, Switzerland and Tokyo, Japan. As of the date of this MD&A, the Company has a total of 29 employees.

<sup>2</sup> MWH=Megawatt-hour

## OPERATIONS REVIEW – THREE MONTHS ENDED MARCH 31

USD thousands (unless otherwise stated)	Chile	Q1-17 Japan	Total	Chile	Q1-16 Japan	Total
<b>Operational data <sup>(1)</sup></b>						
Electricity production (MWh)	42,476	7,446	49,922	45,980	2,752	48,732
<b>Operational performance <sup>(1)</sup></b>						
<b>Electricity revenue</b>						
Feed-in-Tariff	-	2,597	2,597	-	958	958
Market price	328	-	328	692	-	692
PPAs	2,001	-	2,001	1,969	-	1,969
Other utility income	272	-	272	143	-	143
<b>Total revenues</b>	<b>2,601</b>	<b>2,597</b>	<b>5,198</b>	<b>2,804</b>	<b>958</b>	<b>3,762</b>
<b>EBITDA <sup>(2)</sup></b>	<b>375</b>	<b>1,961</b>	<b>2,336</b>	<b>634</b>	<b>768</b>	<b>1,402</b>
<b>EBITDA margin (%)</b>	<b>14%</b>	<b>76%</b>	<b>45%</b>	<b>23%</b>	<b>80%</b>	<b>37%</b>
<b>Net (loss) income</b>	<b>(3,588)</b>	<b>36</b>	<b>(3,552)</b>	<b>(3,267)</b>	<b>137</b>	<b>(3,130)</b>

(1) Operational and performance data is disclosed on a gross basis because Etrion consolidates 100% of its operating subsidiaries

(2) Refers to segment EBITDA as reconciled in the segment information section on page 11.

### OPERATING PERFORMANCE

#### Power Production and Electricity Prices

During Q1-17, the Group produced 2.4% more electricity compared to the same period of 2016, due primarily to the strong performance and increased capacity in Japan, partially offset by higher curtailments in Chile.

#### Japanese projects

The Japanese projects produced a total of approximately 7.4 million kWh of electricity during Q1-17, more than two times the amount compared to the same period in 2016, due to the high irradiation, high performance ratio and the incremental production from the Shizukuishi and Aomori solar power projects connected in October 2016 and February 2017, respectively. In Japan, the Group received the FiT of ¥40 per kWh applicable to Mito and to the Shizukuishi solar park site and the FiT of ¥36 per kWh applicable to the first two solar park sites of the Aomori project.

#### Chilean project

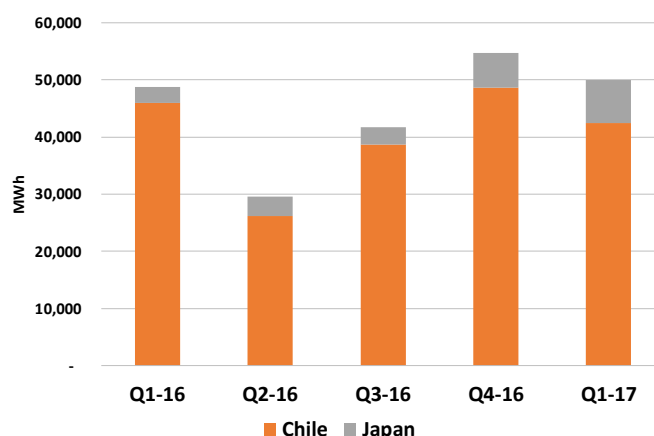
Project Salvador's production of approximately 42.5 million kWh of electricity during Q1-17 was 7.6% lower than the comparable period in 2016 due to higher curtailments. During Q1-17, approximately 20.0 million kWh were sold under the terms of a PPA that started on January 1, 2016.

In Chile, the average spot market price ("Market Price") received by the Group in Q1-17 for Project Salvador was \$0.008 per kWh. In addition, the Group's Chilean subsidiary benefited from the approximately \$0.10 per kWh for the electricity sold under the terms of the PPA.

#### Historical production

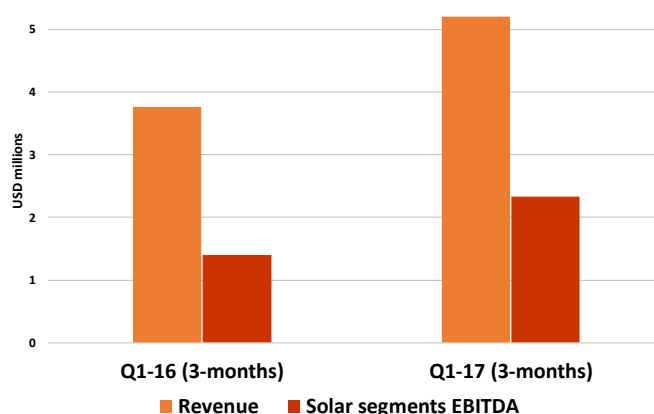
Solar-related production is subject to seasonality over the year due to the variability of daily sun hours in the summer months versus the winter months. However, on an annual basis, solar irradiation is expected to vary less than 10% year-over-year.

The historical quarterly electricity production of the Group is shown below, including the impact of seasonality. Etrion's current solar power plants in operation are capable of producing more than 241 million kWh on an annual basis.



#### Revenue and project-level EBITDA

During Q1-17, the Group's revenue and project-level EBITDA increased by 38% and 67%, respectively, compared to the same period in 2016, primarily due to the strong performance and incremental production in Japan, partially offset by lower Market Price affecting part of the electricity produced Chile.



## OPERATING PROJECTS - JAPAN

### Mito

As of the date of this MD&A, the remaining PPA contract life of Mito is approximately 18 years. The Group's 87%-owned operating solar power project in Japan is shown below:



Project	Region	Sites	Gross MW	Technology	Connection date
Mito-site 1	Ibaraki	1	1.3	Fixed-tilt	Jun-2015
Mito-site 2	Ibaraki	1	1.3	Fixed-tilt	Aug-2015
Mito-site 3	Ibaraki	1	1.3	Fixed-tilt	Jul-2015
Mito-site 4	Ibaraki	1	2.7	Fixed-tilt	May-2015
Mito-site 5	Ibaraki	1	2.7	Fixed-tilt	Jun-2015
<b>Total</b>		<b>5</b>	<b>9.3</b>		

Mito's solar power sites in Japan are capable of producing more than 10.5 million kWh of electricity on an annual basis.

### Aomori



Project	Region	Sites	Gross MW	Technology	Connection date
Aomori	Tohoku	4	9.5	Fixed-tilt	Feb-2017
<b>Total</b>		<b>4</b>	<b>9.5</b>		

Aomori is a 9.5 MW utility-scale solar photovoltaic power plant under construction, located in Misawa city in the Aomori prefecture of the Tohoku region in Japan. The project consists of four sites. Construction-related works began in July 2016, and the first two sites of the Aomori solar project totaling 5.3 MW were connected to the grid and started recognizing revenues as of the end of February 2017. The solar project is expected to be fully operational by the third quarter of 2017. Once fully operational, Aomori is expected to produce approximately 10.7 million kWh of solar electricity per year.

### Shizukuishi

As of the date of this MD&A, the remaining PPA contract life of Shizukuishi is approximately 19.5 years. The Group's 87%-owned operating solar power project in Japan is shown below:



Project	Region	Sites	Gross MW	Technology	Connection date
Shizukuishi	Iwate	1	24.7	Fixed-tilt	Oct-2016
<b>Total</b>		<b>1</b>	<b>24.7</b>		

Shizukuishi's solar power plant in Japan is capable of producing approximately 25.6 million kWh of electricity per year.

## OPERATING PROJECT - CHILE

As of the date of this MD&A, the remaining PPA contract life for approximately 35% of Project Salvador's electricity production is approximately 14 years. The Group's 70%-owned operating solar power project in Chile is shown below:



Project	Region	Sites	Gross MW	Technology	Connection date
Salvador	Atacama	1	70	Single axis	Nov-14
<b>Total</b>		<b>1</b>	<b>70</b>		

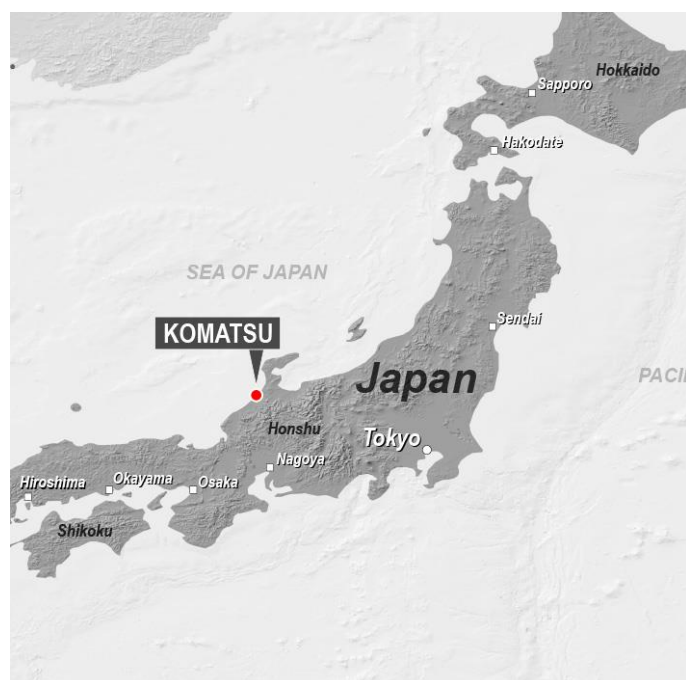
Etrion's solar power plant in Chile is capable of producing more than 200 million kWh of electricity on an annual basis.

## DEVELOPMENT ACTIVITIES

### PROJECTS UNDER CONSTRUCTION - JAPAN

Etrion is actively pursuing renewable energy projects in Japan, due to the attractive solar FiT program and low financing costs. Japan is one of the largest solar PV markets in the world with over 31 gigawatts ("GW") of installed capacity by the end of 2016. This is expected to reach 52 GW by the end of 2019.<sup>3</sup> Etrion is currently allocating substantially all of its resources and management to further develop this market.

#### Komatsu



Project	Region	Sites	Gross MW	Technology	Expected Connection date
Komatsu	Honsu	1	13.2	Fixed-tilt	July-2018
<b>Total</b>		<b>1</b>	<b>13.2</b>		

Komatsu is a 13.2 MW utility-scale solar photovoltaic power plant under construction, located in the Ishikawa prefecture of the Honsu region in Japan. Construction-related works began in the first quarter of 2017, and the solar project is expected to be fully operational by the second quarter of 2018. Once operational, Komatsu is expected to produce approximately 14.2 million kWh of solar electricity per year.

Etrion has charged the Komatsu project with a net development fee of approximately ¥239 million (\$2.0 million).

<sup>3</sup> Bloomberg New Energy Finance



## PROJECTS UNDER DEVELOPMENT - JAPAN

Etrion is reviewing a large pipeline of opportunities in different stages of development and is in different stages of negotiation with third parties. The most advanced project totaling 45 MW, listed in the table below as backlog, is expected to be shovel-ready within the next 6-9 months. Changes (if any) to previously disclosed project size and details are due to optimizations during the development process. Final size and economics are only confirmed when financial close is reached. Etrion expects to own between 85%-100% in these projects, with Hitachi-High-Tech ("HHT") and/or local development partners owning the remainder.

Project	Region	Sites	MW	Technology
Kumamoto	South	1	45	Fixed-tilt
<b>Total backlog</b>		<b>1</b>	<b>45</b>	
Brownfield 1	Central	1	55	Fixed-tilt
Brownfield 2	Central	1	45	Fixed-tilt
Greenfield 1	Central	1	50	Fixed-tilt
Other early stage			50	Fixed-tilt
<b>Total early stage</b>			<b>200</b>	
<b>Total pipeline</b>			<b>245</b>	

### Japanese backlog

Kumamoto is a 45 MW solar project in southern Japan with the FiT secured and the land contract signed by the developer and land owner. Etrion has secured exclusivity with the developer and the grid impact studies are complete. The project is expected to be shovel-ready by the fourth quarter of 2017.

Kumamoto is at an advanced development stage and while the Company believes it has a high degree of probability to reach shovel-ready status, it may be replaced by other projects within the next 12 months in order to accelerate construction or improve project economics.

The Company is currently in discussions with EPC contractors and in ongoing optimization activities to reduce civil and installation works. Therefore it is not providing at this time an updated estimated total project cost associated with the development and construction of the backlog project. Total project costs are expected to be financed with a minimum of 80% non-recourse project debt with the remaining equity portion to be funded by the Group and its Japanese partners.

Etrion also expects to charge this project with development fees that effectively reduce the Company's net equity contribution.

The equity needed to build this Japanese backlog project is likely to be contributed throughout the construction period, typically expended over a two year construction period, rather than at the start of construction.

### Early stage pipeline

Japan Brownfield Project 1 is a 55 MW solar project in central Japan with FiT and land exclusivity secured. The project is going through a complex environment permitting process. The project is expected to be shovel-ready during 2018.

Japan Brownfield Project 2 is a 45 MW solar project in central Japan with FiT and land exclusivity secured. Construction contract with the utility has been signed. The project is going

through the permitting and land acquisition process. The project is expected to be shovel-ready by the first half of 2018.

Japan Greenfield Project 1 is a potential 50 MW solar project in central Japan with land exclusivity and FiT secured. Construction contract with the utility has been signed. The project is expected to be shovel-ready in 2018.

Etrion is also advancing on other several projects under early stage negotiations for a minimum capacity of additional 50 MW.

## PROJECTS UNDER DEVELOPMENT - CHILE

The Company has decided to stop any further development in Chile because it has concluded that current growth opportunities in Japan provide a much higher economic returns and lower market risk.

## SOLAR MARKET OVERVIEW

The market for renewable energy sources, including solar, biomass, wind, hydro and bio fuels, is driven by a variety of factors, such as legislative and policy support, technology, macroeconomic conditions, pricing and environmental concerns. The overall goal for the solar energy market is to reach grid parity, whereby the price of solar energy is competitive with traditional sources of electricity, such as coal and natural gas. Solar technology cost has dropped dramatically and continues to decrease. In addition, solar energy has reached grid parity in certain parts of the world where solar irradiation and electricity prices are high. As the cost of solar technology continues to decrease, new potential markets are expected to develop in areas where solar electricity is price-competitive with other sources of energy.

Solar power plants are an important source of renewable energy. They have very low operating and maintenance costs with minimal moving parts. The technology is essentially silent, emission-free and scalable to meet multiple distributed power requirements. Energy generated from the sun consists of both energy from PV cells and energy generated from solar collectors (i.e., thermal energy or heat).

The key drivers for growth within the renewable energy sector are:

- Increasing global demand for energy due to population and economic growth combined with finite oil and gas reserves;
- Improving technologies like storage and accelerated cost reductions for renewable energy;
- Increased concern about long-term climate change and focus on reducing carbon emissions from energy generation using fossil fuels;
- Political commitment at national and regional levels to support the development and use of renewable energy sources; and
- Attractive government incentives, such as FiTs, capital subsidies and tax incentives in markets that have not yet reached grid parity.

## JAPANESE MARKET

Japan is the world's third largest energy consumer and today is the second largest solar market. The use of solar power in Japan has accelerated since the Japanese FiT scheme for renewable energy was introduced in July 2012 to help offset the loss of nuclear power caused by the Fukushima disaster. This in turn led to most of the nation's 52 reactors being idled due to safety concerns. While current renewable energy usage remains low (currently 15% of total primary energy), Japan is planning to accelerate further renewable energy development. By the end of 2019, Japan is projected to have more than 52 GW of solar capacity.

On January 22, 2015, the Japanese Ministry of Economy, Trade and Industry ("METI") officially announced new rules with respect to the FiT regime. The rules apply to new projects and were designed to streamline the process between developers, METI and utilities. Projects with accepted existing grid connection are not affected. METI's main objective in announcing new rules was to address the increasing speculation from developers that have been applying for the FiT but not realizing projects, and at the same time to unblock the grid assessment applications that were put on hold by some of the utilities facing overloaded capacity.

The Act to amend the Act on Special Measures Concerning Procurement of Electricity from Renewable Energy Sources by Electricity Utilities (the "FIT Amendment Act") was promulgated on June 3, 2016. The FIT Amendment Act makes various changes to the rules for the Japanese renewable energy feed in tariff program including:

- to require certain categories of projects to commence operations within three years from 1 April 2017 (i.e. by 31 March 2020); this will likely result in reduced FiT payments periods after such three years period,
- to allow such projects to change their modules without triggering changes in the FIT rate; and
- to allow such projects to also reduce their project size by more than 20% without triggering a FIT rate reduction.

Management believes Etrion's previously communicated joint development target with HHT of reaching 100 MW shovel-ready in Japan should not be affected by the changes to the Japanese FiT regime described above, nor will the projects in operation or under construction.

## CHILEAN MARKET

The energy sector in Chile is largely liberalized and privatized, which enables energy producers to enter into US dollar-denominated bilateral agreements directly with industrial clients. Chile's energy demand had been severely affected by the downturn of the natural resources sector. On the supply side, Chile has experienced an explosive growth in renewable energy power generation over the past two years resulting in a dramatic drop in energy prices.

Despite the current drop in energy prices and reduced investments in the mining sector, the market fundamentals in the medium to long-term are expected to recover and remain attractive for solar due to its anticipated continued cost reduction history. Growth is expected to pick up once the mining sector rebounds, especially in the northern part of the country where more than 90% of the electricity consumption arises from industrial users.

## FINANCIAL REVIEW

### FINANCIAL RESULTS

#### FIRST QUARTER SELECTED FINANCIAL INFORMATION

During the first quarter of 2017, the Group's performance and results from continuing operations were positively impacted by the incremental production of electricity in Japan. Therefore, revenue and project-level EBITDA increased in comparison with 2016. Nevertheless, consolidated net results were negatively impacted by lower than expected Market Price and production curtailments affecting Project Salvador in Chile. Selected consolidated financial information, prepared in accordance with IFRS, is as follows:

USD thousands (except per share data)	Three months ended	
	Q1-17	Q1-16
<b>Revenue</b>	<b>5,198</b>	<b>3,762</b>
Gross loss	(217)	(1,269)
<b>Net loss</b>	<b>(7,564)</b>	<b>(8,547)</b>
<b>Net loss attributable to owners of the Company</b>	<b>(6,497)</b>	<b>(7,589)</b>
<b>Basic and diluted loss per share</b>	<b>\$(0.02)</b>	<b>\$(0.02)</b>
<b>Net loss from continuing operations</b>	<b>(7,564)</b>	<b>(6,828)</b>
<b>Adjustments to net loss for:</b>		
Net income tax expense (recovery)	96	(912)
Depreciation and amortization	2,650	2,794
Share-based payment expense	263	243
Net finance costs	4,862	4,838
Other income	(29)	(29)
Income tax paid	(537)	-
Changes in working capital	(2,562)	(2,825)
<b>Operating cash flow</b>	<b>(2,821)</b>	<b>(2,719)</b>

Summarized consolidated balance sheet information, prepared in accordance with IFRS, is as follows:

USD thousands	March 31 2017	December 31 2016
Non-current assets	230,514	214,290
Current assets	81,850	74,351
<b>Total assets</b>	<b>312,364</b>	<b>288,641</b>
Non-current liabilities	316,158	305,836
Current liabilities	29,235	29,094
<b>Total liabilities</b>	<b>345,393</b>	<b>334,930</b>
<b>Net liabilities</b>	<b>(33,029)</b>	<b>(46,289)</b>
Working capital	52,615	45,257
Dividends declared	-	-

## SEGMENT INFORMATION

Management considers reportable segments from a geographical perspective and measures performance based EBITDA and reviews and monitors performance of the Group on this basis.

The Company has identified two reportable segments solar energy Chile and solar energy Japan, which include the Group's solar power projects that were previously aggregated under the renewable segment. While the Company has determined it has only two reportable segments, the Company has decided to disclose additional information about its corporate activities as it believes that this information is useful for readers of the condensed consolidated interim financial statements. To ensure a consistent comparison to the new structure, the prior year segmental information has been represented.

### SEGMENT INFORMATION THREE MONTHS ENDED MARCH 31

Segment consolidated financial information for the three months ended March 31, prepared in accordance with IFRS, is as follows:

USD thousands	Q1-17				Q1-16			
	Solar Chile	Solar Japan	Corporate	Total	Solar Chile	Solar Japan	Corporate	Total
<b>Revenue</b>	<b>2,601</b>	<b>2,597</b>	<b>-</b>	<b>5,198</b>	<b>2,804</b>	<b>958</b>	<b>-</b>	<b>3,762</b>
Operating expenses	(2,189)	(622)	-	(2,811)	(2,139)	(152)	-	(2,291)
General and administrative	(37)	(56)	(2,266)	(2,359)	(31)	(38)	(1,471)	(1,540)
Other income (expenses)	-	42	(13)	29	-	-	19	19
<b>EBITDA</b>	<b>375</b>	<b>1,961</b>	<b>(2,279)</b>	<b>57</b>	<b>634</b>	<b>768</b>	<b>(1,452)</b>	<b>(50)</b>
Depreciation and amortization	(1,330)	(1,273)	(47)	(2,650)	(2,394)	(346)	(54)	(2,794)
Finance income	-	12	-	12	194	-	188	382
Finance costs	(2,633)	(709)	(1,545)	(4,887)	(3,092)	(247)	(1,939)	(5,278)
<b>(Loss) income before income tax</b>	<b>(3,588)</b>	<b>(9)</b>	<b>(3,871)</b>	<b>(7,468)</b>	<b>(4,658)</b>	<b>175</b>	<b>(3,257)</b>	<b>(7,740)</b>
Income tax (expense) recovery	-	45	(141)	(96)	1,391	(38)	(441)	912
<b>Net (loss) income for the period</b>	<b>(3,588)</b>	<b>36</b>	<b>(4,012)</b>	<b>(7,564)</b>	<b>(3,267)</b>	<b>137</b>	<b>(3,698)</b>	<b>(6,828)</b>

**Solar Chile:** During Q1-17, the Group's Chilean solar segment generated revenues of \$2.6 million and EBITDA of \$0.4 million, representing a 7% and 41% decrease, respectively, in comparison with the same period in 2016, mainly driven by the 7.6% decrease in production and lower than expected Market Price. The Group's Chilean segment generated a net loss of \$3.6 million, in comparison with the net loss result of \$3.3 million for the same period in 2016. During Q1-17 the Group's Chilean solar segment did not recognize net income tax recovery from its tax losses incurred, in comparison with the same period in 2016, due to the uncertainty regarding future taxable profits.

**Solar Japan:** During Q1-17, the Group's Japanese solar segment generated revenues of \$2.6 million and EBITDA of \$2.0 million, which represented a significant increase in comparison with the same period in 2016, driven by the additional production from the Shizukuishi and Aomori solar projects and production above expectations due to good irradiation and performance. In addition, the Group's Japanese segment generated a net income of \$36,000, in comparison with the net income of \$0.1 million for the same period in 2016.

**Corporate:** During Q1-17, the Group's corporate segment generated negative EBITDA of \$2.3 million and a net loss of \$4.0 million, respectively, mainly due to corporate general and administrative expenses and finance costs associated with the Company's corporate bond.



## NON-GAAP PERFORMANCE MEASURES

<b>Reconciliation of adjusted net loss to net loss</b>		<b>Three months ended</b>	
<b>USD thousands</b>		<b>Q1-17</b>	<b>Q1-16</b>
<b>Net loss</b>		<b>(7,564)</b>	<b>(6,828)</b>
<b>Adjustments for non-recurring items:</b>			
General and administrative expenses		178	-
Write off of guarantees		389	-
<b>Adjustments for non-cash items:</b>			
Depreciation and amortization		2,650	2,794
Fair value movements (derivative financial instruments)		(7)	191
Share-based payment expense		263	243
<b>Adjusted net loss</b>		<b>(4,091)</b>	<b>(3,600)</b>

<b>Reconciliation of adjusted operating cash flows to operating cash flows</b>		<b>Three months ended</b>	
<b>USD thousands</b>		<b>Q1-17</b>	<b>Q1-16</b>
<b>Operating cash flow</b>		<b>(2,821)</b>	<b>(2,719)</b>
- Changes in working capital		2,562	2,825
- Income tax paid		537	-
<b>Adjusted operating cash flow</b>		<b>278</b>	<b>106</b>

<b>Reconciliation of Solar segments Adjusted EBITDA to EBITDA</b>		<b>Three months ended</b>	
<b>USD thousands</b>		<b>Q1-17</b>	<b>Q1-16</b>
<b>Net loss</b>		<b>(7,564)</b>	<b>(6,828)</b>
<b>Adjustments for:</b>			
Net income tax expense		96	(912)
Net finance costs		4,875	4,896
Depreciation and amortization		2,650	2,794
<b>EBITDA</b>		<b>57</b>	<b>(50)</b>
<b>Adjustments for non-recurring items:</b>			
General and administrative expenses		178	-
Write off deposits in guarantee		389	-
<b>Adjusted EBITDA</b>		<b>624</b>	<b>(50)</b>
Corporate G&A expenses after non-recurring items		1,712	1,452
<b>Solar segments Adjusted EBITDA</b>		<b>2,336</b>	<b>1,402</b>

## QUARTERLY SELECTED FINANCIAL INFORMATION

Selected consolidated financial information, prepared in accordance with IFRS, is as follows:

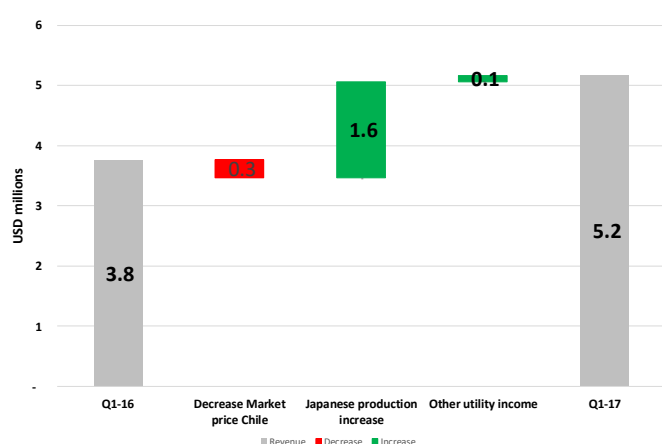
<b>USD thousands (except per share data)</b>	<b>Q1-17</b>	<b>Q4-16</b>	<b>Q3-16</b>	<b>Q2-16</b>	<b>Q1-16</b>	<b>Q4-15</b>	<b>Q3-15</b>	<b>Q2-15</b>
Revenue	5,198	4,979	17,224	16,605	9,903	7,088	15,913	17,060
Net (loss) income	(7,564)	20,981	(88,295)	1,443	(8,547)	(1,808)	(4,389)	(10,057)
Net (loss) income attributable to owners of Etrion	(6,497)	30,070	(61,131)	2,438	(7,588)	(1,340)	(3,136)	(9,227)
Basic and diluted (loss) earnings per share	(0.019)	0.090	(0.183)	0.007	(0.023)	(0.004)	(0.009)	(0.028)

Solar-related production and revenues experience seasonality over the year due to the variability of daily sun hours in the summer months versus the winter months, resulting in lower revenues in the first and fourth quarters each year. In Japan, revenues are received in Japanese yen and have been translated at the average ¥/\$ exchange rate for the corresponding period. Consequently, revenues expressed in \$ may fluctuate according to exchange rate variations. The Group's condensed consolidated interim financial statements are presented in \$, which is the Group's presentation currency. The Company's functional currency is the ¥. The unaudited condensed consolidated interim financial statements have been prepared in accordance with IFRS.

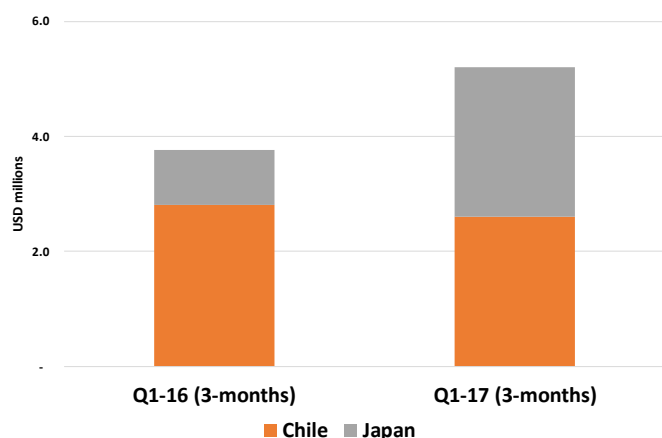
## REVENUE

USD thousands	Three months ended	
	Q1-17	Q1-16
FiT revenue	2,597	958
Market Price revenue	328	692
PPA revenue	2,001	1,969
Other utility income	272	143
<b>Total revenue</b>	<b>5,198</b>	<b>3,762</b>

Revenues increased significantly by \$1.4 million during Q1-17 compared to the same period of 2016, primarily due to an overall production increase in Japan, partially offset by lower Chilean Market Price. The reconciliation of total revenue in Q1-17 versus Q1-16 is as follows:



In Q1-17, the Group's revenue from Market Price represented 6% of total revenue. In addition, the Group also received \$0.3 million of capacity payment associated with its operations in Chile. The capacity payment is a monthly fixed amount received by Salvador from other energy producers in the spot market. The chart below shows the revenue comparison generated by country:



## ADJUSTED CONSOLIDATED EBITDA

During Q1-17 adjusted consolidated EBITDA increased compared to the same period of 2016, mainly as a result of EBITDA being contributed by the Group's Japanese solar segment, partially offset by lower than expected Market Price and higher than expected curtailments in Chile.

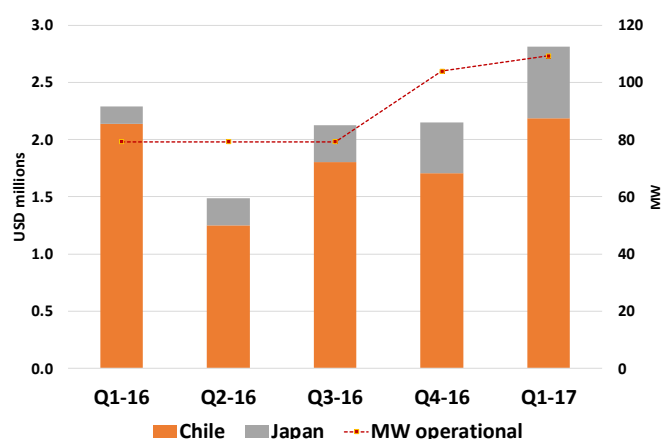
## OPERATING EXPENSES

USD thousands	Three months ended	
	Q1-17	Q1-16
O&M costs	674	596
Purchased power	950	1,141
Personnel costs	300	144
D&A	2,603	2,740
Property tax	31	-
Insurance	120	96
Land lease	234	46
Transmission costs	416	174
Other expenses	87	94
<b>Total operating expenses</b>	<b>5,415</b>	<b>5,031</b>

Operating expenses increased by \$0.4 million (8%) Q1-17 compared to the same period of 2016, primarily due to incremental operational costs associated with the Shizukuishi and Aomori project, and particularly due to the increase in transmission costs in Chile.

During Q1-17, the average nodal costs in Chile were approximately \$0.047 per kWh in comparison to \$0.057 per kWh in the same period of 2016. These nodal costs are expected to drop significantly once the work underway to expand the transmission capacity in the north of the SIC network is completed. This is expected to occur by early 2018.

The chart below shows the historical operating expenses before depreciation and amortization over the last five quarters including the effect of the recently added projects in Japan.



## GENERAL AND ADMINISTRATIVE EXPENSES

USD thousands	Three months ended	
	Q1-17	Q1-16
Salaries and benefits	763	656
Board of directors fees	37	37
Share-based payments	263	243
Professional fees	517	249
Listing and marketing	71	74
D&A	47	54
Office lease	91	114
Office, travel and other	227	167
Write-off guarantees	389	-
<b>Total general and admin</b>	<b>2,405</b>	<b>1,594</b>

General and administrative expenses increased by \$0.8 million (51%) during Q1-17 compared to the same period in 2016, primarily due to the write-off of certain deposits in guarantee associated with projects that the Company is no longer pursuing in Chile, and one-time additional professional fees associated with the sale of the Italian subsidiaries. In addition, the Company had an increase in salaries and benefits due to a higher headcount given the expansion in Japan.

## NET FINANCE COSTS

USD thousands	Three months ended	
	Q1-17	Q1-16
Interest project loans	3,426	2,832
Interest corporate bond	897	2,194
Fair value movements	(7)	191
Foreign exchange	546	(378)
Other finance costs	13	57
<b>Net finance cost</b>	<b>4,875</b>	<b>4,896</b>

During Q1-17 net finance costs remained flat compared to the same period in 2016, as the increase in project loan interest associated with the Shizukuishi and Aomori solar operational projects in Japan was offset by a decrease in corporate bond interest following the partial repayment executed in December 2016. During Q1-17 the Group capitalized \$0.1 million (2016: \$0.1 million) of borrowing costs associated with credit facilities obtained to finance the construction of Aomori and Komatsu.

## INCOME TAX EXPENSE

USD thousands	Three months ended	
	Q1-17	Q1-16
Current income tax expense	(288)	(525)
Deferred tax recovery	192	1,437
<b>Net income tax (expense) recovery</b>	<b>(96)</b>	<b>912</b>

The Group recognized an income tax expense of \$0.2 million (2016: \$0.1 million) associated with its solar power projects in Japan and an income tax expense of \$0.1 million (2016: \$0.4 million) associated with its management services subsidiaries. In addition, the Group recognized a deferred income tax expense of \$0.2 million (2016: \$1.4 million income tax recovery) primarily due to the effect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts.

## FINANCIAL POSITION

### LIQUIDITY AND FINANCING

#### CASH POSITION

USD thousands	March 31	December 31
	2017	2016
Cash and cash equivalents:		
Unrestricted at parent level	42,994	42,286
Restricted at project level	30,211	18,888
<b>Total cash and cash equivalents</b>	<b>73,205</b>	<b>61,174</b>

#### UNRESTRICTED CASH ANALYSIS

The Group's cash and cash equivalents at March 31, 2017, included unrestricted cash of \$43.0 million (December 31, 2016: \$42.3 million) held at the parent level. The Group has a fully-funded portfolio of operational and under construction projects. In addition, the Group expects to finance the construction and/or acquisition of new projects with a combination of cash and cash equivalents, additional corporate equity, assets sales or debt financing and non-recourse project loans, as required.

#### RESTRICTED CASH ANALYSIS

USD thousands	March 31	December 31
	2017	2016
Chile	1,750	4,123
Japan	28,461	14,765
<b>Total restricted cash</b>	<b>30,211</b>	<b>18,888</b>

The Group's cash and cash equivalents at March 31, 2017, included restricted cash held at the project level in Japan and Chile that is restricted by the lending banks for future repayment of interest and principal and working capital requirements related to each project. Restricted cash and cash equivalents can be distributed from the Group's projects, subject to approval from the lending banks, through repayment of shareholder loans, through payment of interest on shareholder loans or through dividend distributions.

#### WORKING CAPITAL

At March 31, 2017, the Group had working capital of \$52.6 million (December 31, 2016: \$45.3 million). This working capital includes the fair market value of interest rate swap contracts that are classified as current liabilities in accordance with IFRS but are not expected to be settled in cash in the next 12 months without replacement. Excluding these derivative financial liabilities that are not expected to be settled in the near-term, the Group's working capital would have been \$53.9 million. (December 31, 2016: \$46.4 million).

At March 31, 2017, the Group's contractual obligations for the next five years and thereafter are as follows:

USD thousands	2017	2018	2019	2020	2021	After 5 years	Total
EPC contract	35,761	4,189	-	-	-	-	39,950
Project loans	20,774	20,450	16,529	17,481	18,227	309,282	402,743
Corporate bond	3,421	3,421	44,475	-	-	-	51,317
O&M contracts	2,356	2,677	2,450	3,229	3,196	45,152	59,059
Operating leases	1,322	1,161	992	992	992	15,052	20,511
Trade payables	9,570	-	-	-	-	-	9,570
<b>Total</b>	<b>73,204</b>	<b>31,898</b>	<b>64,446</b>	<b>21,702</b>	<b>22,415</b>	<b>369,485</b>	<b>583,150</b>

All of these contractual obligations will be funded from existing cash available, future cash flows from operations and/or debt refinancing with no additional capital investments to be made by the Group.

## NET EQUITY

During Q1-17, the total equity attributable to owners of the Company decreased by \$4.1 million from a net liability position of \$14.8 million at December 31, 2016, to a net liability position of \$18.9 million at March 31, 2017. This change was primarily due to the net loss reported by the Group during the period, unrealized fair value losses recognized within other reserves associated with the Group's derivative financial instruments and the cumulative foreign exchange translation adjustment. Total equity attributable to owners of the Company at March 31, 2017, was negatively impacted by the cumulative fair value losses of \$13.1 million recognized within other reserves that are associated with the Group's derivative financial instruments. Excluding these fair value losses, the total equity attributable to owners of the Company at March 31, 2017, would have resulted in a net liability position of \$5.8 million.

## BORROWINGS

### Non-recourse project loans

The following is a summary of the Group's non-recourse project loans:

USD thousands	MW	Maturity	March 31 2017	December 31 2016
Shizukuishi	25	December 31, 2034	66,317	63,093
Mito	9	December 31, 2034	23,332	22,199
Aomori	10	December 31, 2034	19,883	8,477
Komatsu	13	June 30, 2036	12,926	-
Salvador	70	September 1, 2033	149,048	148,900
<b>Total</b>	<b>127</b>		<b>271,506</b>	<b>242,669</b>

### Japanese projects

During the three months ended March 31, 2017, the Group's Japanese subsidiaries with solar power projects under construction drew down a total of ¥2,530 million (\$22.6 million) and ¥210 million (\$1.9 million) under the senior financing agreements and under the VAT credit facility, respectively (2016: ¥ nil). At March 31, 2017, the combined undrawn gross amount under all the Japanese credit facilities amounted to ¥3,321 million (\$29.7 million) (2016: ¥5,023 million (\$44.7 million)). At March 31, 2017, the fair value of the non-recourse project loans approximated their carrying values

as the loans bear floating interest rates. All the Japanese interest rate swap contracts qualified for hedge accounting at March 31, 2017, and December 31, 2016.

On March 24, 2017, Shizukuishi received a cash reimbursement of ¥501 million (\$4.5 million) from the Japanese tax authorities associated with VAT credits accumulated during the construction of its solar power plant. The Company's subsidiary requested an early repayment from the lender bank in relation to the associated VAT credit facility.

At March 31, 2017 and 2016, the Group was not in breach of any of the imposed operational and financial covenants associated with its Japanese project loans.

### Chilean project

The non-recourse project loan obtained by the Group's Chilean subsidiary, Salvador, to finance Project Salvador matures in 2033. The repayment of this credit facility is secured principally by the proceeds from the sale of electricity in the spot market. The loan is accounted for using the amortized cost method based on the effective interest rate. At March 31, 2017, there were no undrawn amounts under the OPIC senior credit facility. The fair value of this credit facility equals its carrying amount, as the interest rates approximate the market rates.

On March 9, 2017, Etrion signed an amendment to the existing senior finance agreement with OPIC, Salvador's lender, whereby all scheduled interest and principal payments between May 31, 2017 and May 31, 2018 will be deferred and due at the end of the period, if the debt is not restructured or period extended. The deferred interest and principal payments will accrue additional interest at the level of the existing interest rate. All defaults resulting from financial covenants and ratios calculations during this period will be waived.

At March 31, 2017 and 2016, the Group was not in breach of any of the imposed operational and financial covenants associated with its Chilean project loans.

### Corporate borrowings

At March 31, 2017, the Group had €40 million of corporate bonds outstanding. The bond was issued by the Company in April 2014 at 8.0% annual interest with a 5-year maturity. The carrying amount of the corporate bond as at March 31, 2017, including accrued interest net of transaction costs, was \$43.4 million (December 31, 2016: \$42.1 million)

At March 31, 2017, and December 31, 2016, the Group was not in breach of any of the operational and financial covenants associated with its corporate borrowings.

The corporate bond agreement includes a call option that allows the Company to redeem the bond early (in its entirety) at any time at a specified percentage over the par value. The Company can call the bonds after the second year at 4% above par value, after the third year at 2.5% above par value and after the fourth year at 1% above par value. At March 31, 2017 and December 31, 2016, no separate amount was recognized in relation to this call option.



### Net debt reconciliation

The Group's adjusted net debt position on a cash basis, (excluding non-cash items and VAT facilities) is as follows:

USD thousands	March 31 2017	December 31 2016
<b>Total borrowings as per IFRS</b>	<b>314,916</b>	<b>284,777</b>
VAT facilities	(2,639)	(726)
Accrued interest	(2,877)	(1,548)
Transaction costs	3,724	4,371
<b>Adjusted borrowings</b>	<b>313,124</b>	<b>286,874</b>
Cash and cash equivalents	(73,205)	(61,174)
<b>Adjusted consolidated net debt</b>	<b>239,919</b>	<b>225,700</b>
<b>Adjusted corporate net debt</b>	<b>(429)</b>	<b>(98)</b>

The Group's consolidated net debt increased during Q1-17, in comparison with December 31, 2016, mainly due to the additional funds drawn from the SMTB credit facilities to fund the construction costs of Aomori and Komatsu.

### OUTSTANDING SHARE DATA

At the date of this MD&A, the Company had 334,094,324 common shares (May 11, 2016: 334,094,324) and options to acquire 2,638,000 common shares of the Company (May 11, 2016: 3,202,000) issued and outstanding. The options expire at various dates between July 5, 2017, and April 28, 2018, with exercise prices ranging between Canadian dollar ("CAD\$") CAD\$0.24 and CAD\$1.59 per share.

In addition, the Company maintains a Restricted Share Unit ("RSU") Plan pursuant to which employees, consultants, directors and officers of the Group may be awarded RSUs. The RSUs have a contractual term of between three and four years and are subject to certain time-based conditions and in certain cases are also subject to performance-based vesting conditions. The Company had 29,962,627 RSUs outstanding as of May 9, 2017.

### OFF-BALANCE SHEET ARRANGEMENTS

The Group had no off-balance sheet arrangements at March 31, 2017, and December 31, 2016.

### CAPITAL INVESTMENTS

The Group plans to allocate its unrestricted cash by prioritizing the Japanese market. Based on the current status, the Company does not anticipate beginning construction of its Japanese backlog project until the fourth quarter of 2017.

The equity needs to build the Japanese backlog project are likely to be contributed throughout the construction period, rather than at start of construction.

The Group will finance the development and/or construction costs associated with its projects under development, as well as new projects, with a combination of cash and cash equivalents, additional corporate debt or equity financing and non-recourse project loans, as required.

### Contractual commitments

The Group enters into engineering, procurement and construction agreements with large international contractors that design, construct, operate and maintain utility-scale solar photovoltaic power plants. As of March 31, 2017, the Group had a contractual obligation to acquire construction services in the amount of \$40.0 million related to the construction of the 9.5 MW Aomori and the 13.2 MW Komatsu solar power projects in Japan. This contractual obligation will be funded from existing cash available at the project company level or from future cash flows from operations with no additional capital investments to be made by the Group or additional funding from the Group's unrestricted cash balance.

### Contingencies

On August 10, 2015, the Group received a litigation notice from a former employee alleging unreconciled labor-related differences. The Company's directors believe the claim is without merit, and the Group intends to vigorously defend itself. Given the early stage of the legal process, the Company is unable to make a reliable estimate of the financial effects of the litigation.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In connection with the preparation of the Company's condensed consolidated interim financial statements, the Company's management has made assumptions and estimates about future events and applied judgments that affect the reported values of assets, liabilities, revenues, expenses and related disclosures. These assumptions, estimates and judgments are based on historical experience, current trends and other factors that the Company's management believes to be relevant at the time the consolidated financial statements are prepared. On a regular basis, the Company's management reviews the accounting policies, assumptions, estimates and judgments to ensure that the consolidated financial statements are presented fairly in accordance with IFRS. However, because future events and their effects cannot be determined with certainty, actual results could differ from these assumptions and estimates, and such differences could be material.

There has been no change to the critical accounting estimates and assumptions used in the preparation of the Company's condensed consolidated interim financial statements for the three months ended March 31, 2017, from those disclosed in the notes to the Company's consolidated financial statements for the year ended December 31, 2016.

During the three months ended March 31, 2017, the Group did not adopt any new standards and interpretations or amendments thereto applicable for financial periods beginning on or after January 1, 2017.

## RELATED PARTIES

For the purposes of preparing the Company's condensed consolidated interim financial statements, parties are considered to be related if one party has the ability to control the other party, under ordinary control, or if one party can exercise significant influence over the other party in making financial and operational decisions. The Company's major shareholder is the Lundin family, which collectively owns directly and through various investment trust approximately 24.3% of the Company's common shares. All related party transactions are made on terms equivalent to those made on an arm's length basis.

The related party transactions disclosed in the notes to the Company's condensed consolidated interim financial statements for the three months ended March 31, 2017, are summarized below.

### RELATED PARTY TRANSACTIONS

#### Lundin Petroleum AB and subsidiaries

The Group receives professional services from Lundin Petroleum AB and from Lundin Services BV, a wholly-owned subsidiary of Lundin Petroleum AB for market and investor relation activities in Sweden and general and administrative expenses, respectively. During Q1-17, the Group incurred general and administrative expenses of \$9,000 (2016: \$10,000), respectively, from Lundin Petroleum AB and its subsidiary. At March 31, 2017, the Group had \$1,000 (December 31, 2016: \$1,000) outstanding in relation to these expenses.

#### Lundin family

During Q1-17, the Group recognized \$0.1 million (2016: \$0.2 million) of interest expense and \$10,000 (2016: \$11,000) of transaction costs associated with the portion of the corporate bonds held by investment companies associated with the Lundin family.

#### Lundin SA

During Q1-17, the Group recognized \$30,000 (2016: \$ nil) under the service agreement with Lundin SA to make available fully staffed and equipped premises to serve members of its Board of Directors. The contract is renewed automatically, unless terminated by either party.

### KEY MANAGEMENT PERSONNEL

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. The key management of the Group includes members of the Board of Directors, the Chief Executive Officer, Marco A. Northland and the Chief Financial Officer, Paul Rapisarda.

During Q1-17, the Group recognized \$0.4 million (2016: \$0.5 million) within general and administrative expenses associated with the remuneration of key management personnel, related to salaries and short-term benefits, pension costs, fees paid to the Board of Directors and share-based payment expenses. At March 31, 2017, the Group had \$ nil outstanding to key management personnel (December 31, 2016: \$0.5 million).

## FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial risks relating to its operations. These risks include market risk (including currency risk, interest rate risk and electricity price risk), credit risk and liquidity risk. The Group's overall risk management procedures focus on the unpredictability of financial markets, specifically changes in foreign exchange rates and interest rates, and seek to minimize potential adverse effects on the Group's financial performance. The Group seeks to minimize the effects of these risks by using derivative financial instruments to hedge interest rate exposures through interest rate swap contracts. However, the Group has not entered into any foreign exchange rate hedges as monetary assets and liabilities held by the Group's subsidiaries are primarily held in the individual subsidiaries' functional currencies.

The Company's management carries out risk management procedures with guidance from the Audit Committee and Board of Directors. Refer to the Company's audited consolidated financial statements for the year ended December 31, 2016, for further details relating to the Group's financial risk management.

## DERIVATIVE FINANCIAL INSTRUMENTS

A summary of the Group's derivative financial instruments is as follows:

USD thousands	March 31 2017	December 31 2016
<b>Derivative financial liabilities:</b>		
Interest rate swap contracts		
Current portion	1,257	1,167
Non-current portion	9,448	8,347
<b>Total derivative financial instruments</b>	<b>10,705</b>	<b>9,514</b>

The Group enters into interest rate swap contracts in order to hedge against the risk of variations in the Group's cash flows as a result of floating interest rates on its non-recourse project loans in Japan. The fair value of these interest rate swap contracts is calculated as the present value of the estimated future cash flows, using the notional amount to maturity as per the interest rate swap contracts, the observable TIBOR interest rate forward yield curve and an appropriate discount factor.

During the three months ended March 31, 2017, the Group recognized a net fair value loss of \$0.5 million (2016: \$2.0 million), net of tax, within other comprehensive income related to the effective portion of the Group's interest rate swap contracts.

At March 31, 2017, and December 31, 2016 all of the Group's derivative financial instruments qualified for hedge accounting with fair value movements accounted for within equity, except for the ineffective portion that is transferred to finance income and costs.

## RISKS AND UNCERTAINTIES

The Group's activities expose it to a variety of financial and non-financial risks and uncertainties that could have a material impact on the Group's long-term performance and could cause actual results to differ materially from expected and historical results. Certain of such risks are discussed below. For a more detailed discussion of risk factors applicable to the Group, see Etrion's Annual Information Form for the year ended December 31, 2016, which has been filed on SEDAR and is available under Etrion's profile at [www.sedar.com](http://www.sedar.com). Risk management is carried out by the Company's management with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also oversees and provides assistance with the overall risk management strategy and mitigation plan of the Group.

## FINANCIAL RISKS

### DEBT AND EQUITY FINANCING

The Group's anticipated growth and development activities will depend on the Group's ability to secure additional financing (i.e., equity financing, corporate debt, and/or non-recourse project loans). The Group cannot be certain that financing will be available when needed, and, as a result, the Group may need to delay discretionary expenditures. In addition, the Group's level of indebtedness from time to time could impair its ability to obtain additional financing and to take advantage of business opportunities as they arise. Failure to comply with facility covenants and obligations could also expose the Group to the risk of seizure or forced sale of some or all of its assets.

### CAPITAL REQUIREMENTS AND LIQUIDITY

Although the Group is currently generating significant cash flows from its operational projects, the construction and acquisition of additional projects will require significant external funding. Failure to obtain financing on a timely basis could cause the Group to miss certain business opportunities, reduce or terminate its operations or forfeit its direct or indirect interest in certain projects. There is no assurance that debt and/or equity financing, or cash generated from operations, will be available or sufficient to meet these requirements or for other corporate purposes, or, if debt and/or equity financing is available, that it will be available on terms acceptable to the Group. The inability of the Group to access sufficient capital for its operations could have a material impact on the Group's business model, financial position and performance.

### MARKET RISKS

The Group is exposed to financial risks such as interest rate risk, foreign currency risk, electricity price risk and third-party credit risk. The Company's management seeks to minimize the effects of interest rate risk by using derivative financial instruments to hedge risk exposures.

### COST UNCERTAINTY

The Group's current and future operations are exposed to cost fluctuations and other unanticipated expenditures that could have a material impact on the Group's financial performance.

## NON-FINANCIAL RISKS

### LICENSES AND PERMITS

The Group's operations require licenses and permits from various governmental authorities that are subject to changes in regulation and operating circumstances. There is no assurance that the Group will be able to obtain all the necessary licenses and permits required to develop future renewable energy projects. At the date of this MD&A, to the best of the Company's knowledge, all necessary licenses and permits have been obtained for projects already built and under construction, and the Group is complying in all material respects with the terms of such licenses and permits.

## GOVERNMENTAL REGULATION

The renewable energy sector is subject to extensive government regulation. These regulations are subject to change based on current and future economic and political conditions. The implementation of new regulations or the modification of existing regulations affecting the industries in which the Group operates could lead to delays in the construction or development of additional solar power projects and/or adversely impair its ability to acquire and develop economic projects, generate adequate internal returns from operating projects and continue operating in current markets. Specifically, reductions in the FIT payable to the Group on its existing solar power projects in Italy and Japan as well as other legislative or regulatory changes could impact the profitability of the Group's solar power projects.

## COMPETITION

The renewable energy industry is extremely competitive and many of the Group's competitors have greater financial and operational resources. There is no assurance that the Group will be able to acquire new renewable energy projects in order to grow in accordance with the Company's strategy. The Group also competes in securing the equipment necessary for the construction of solar energy projects. Equipment and other materials necessary to construct production and transmission facilities may be in short supply, causing project delays or cost fluctuations.

## PRICES AND MARKETS FOR ELECTRICITY

Historically, the Group was not exposed to significant electricity market price risk as the majority of the revenues generated by its operating solar power projects in Italy were secured by long-term contracts based on a FIT. However, in Chile, the Company's subsidiary, Salvador, is exposed to market price risk associated with the electricity sold at the spot rate, which may fluctuate based on supply and demand and other conditions.

A decline in the costs of other sources of electricity, such as fossil fuels or nuclear power, could reduce the wholesale price of electricity. A significant amount of new electricity generation capacity becoming available could also reduce the wholesale price of electricity. Broader regulatory changes to the electricity trading market (such as changes to integration of transmission allocation and changes to energy trading and transmission charging) could have an impact on electricity prices. A decline in the market price of electricity could materially adversely affect the price of electricity generated by renewable assets in Chile and thus the Company's business, financial position, results of operations and business prospects.

## INTERNATIONAL OPERATIONS

Renewable energy development and production activities are subject to significant political and economic uncertainties that may adversely affect the Group's performance. Uncertainties include, but are not limited to, the possibility of expropriation, nationalization, renegotiation or nullification of existing or future FITs/PPAs, a change in renewable energy pricing policies and a change in taxation policies or the regulatory environment in the jurisdictions in which the Group operates. These

uncertainties, all of which are beyond the Group's control, could have a material adverse effect on the Group's financial position and operating performance. In addition, if legal disputes arise relating to any of the Group's operations, the Group could be subject to legal claims and litigation within the jurisdiction in which it operates.

## RELIANCE ON CONTRACTORS AND KEY EMPLOYEES

The ability of the Company to conduct its operations is highly dependent on the availability of skilled workers. The labor force in many parts of the world is unionized and politicized, and the Group's operations may be subject to strikes and other disruptions. In addition, the success of the Company is largely dependent upon the performance of its management and key employees. There is a risk that the departure of any member of management or any key employee could have a material adverse effect on the Group.

The Group's business model relies on qualified and experienced contractors to design, construct and operate its renewable energy projects. There is a risk that such contractors are not available or that the price for their services impairs the economic viability of the Group's projects.

## ETRION OUTLOOK AND GUIDANCE

On March 13, 2017, Etrion issued a revenue and project-level EBITDA forecast for the fiscal year ending December 31, 2017. The Group has reviewed the previously released guidance in light of the three months' performance and have concluded that at this stage there is no basis to modify the guidance for the full year. The Group will continue to reassess its guidance and will make any adjustments and disclosures as may be warranted.

## DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

In accordance with National Instrument 52-109 *Certification of Disclosures in Issuers Annual and Interim Filings*, the Company's Chief Executive Officer and Chief Financial Officer are required to:

- design or supervise the design and evaluate the effectiveness of the Group's disclosure controls and procedures ("DC&P"); and
- design or supervise the design and evaluate the effectiveness of the Group's internal controls over financial reporting ("ICFR").

The Company's Chief Executive Officer and Chief Financial Officer have not identified any material weakness in the Group's DC&P and ICFR.



## **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

Forward-looking information and statements are included throughout this MD&A and include, but are not limited to, statements with respect to: the Group's plans for future growth and development activities (including, but not limited to, expectations relating to the timing of the development, construction, permitting, licensing, financing operation and electricity production, as the case may be, of its future solar power plants in Japan and Chile); expectations relating to future solar energy production and the means by which, and to whom, such future solar energy will be sold; the need for, and amount of, additional capital to fund the construction or acquisition of new projects and the expected sources of such capital; expectations relating to grid parity; the expected key drivers for growth and expectations with respect to future growth in installed solar capacity in Japan and future mining growth in Chile. The above constitute forward-looking information, within the meaning of applicable Canadian securities legislation, which involves risks, uncertainties and factors that could cause actual results or events to differ materially from current expectations, including, without limitation: risks associated with operating exclusively in foreign jurisdictions; risks associated with the regulatory frameworks in the jurisdictions in which the Company operates, or expects to operate, including the possibility of changes thereto; uncertainties with respect to the identification and availability of suitable additional renewable energy projects on economic terms; uncertainties with respect to the Group's ability to negotiate PPAs with industrial energy users; uncertainties relating to the availability and costs of financing needed in the future; uncertainties with respect to the impact of the changes to the Japanese FiT regime that came into effect in 2015 and 2016; uncertainties with respect to the timing of the expansion of the SIC electricity grid and the interconnection of the SIC and SING networks in Chile; the risk that the Company's solar projects may not produce electricity or generate revenues and earnings at the levels expected; the risk that the Company may not be able to renegotiate certain of its O&M contracts as anticipated; the risk that the construction or operating costs of the Company's projects may be higher than anticipated; uncertainties with respect to the receipt or timing of all applicable permits for the development of projects; the impact of general economic conditions and world-wide industry conditions in the jurisdictions and industries in which the Group operates; risks inherent in the ability of the Group to generate sufficient cash flow from operations to meet current and future obligations; stock market volatility; and other factors, many of which are beyond the Group's control.

All such forward-looking information is based on certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors the Company believes are appropriate in the circumstances. In addition to the assumptions set out elsewhere in this MD&A, such assumptions include, but are not limited to: the ability of the Group to obtain the required permits in a timely fashion and project and debt financing on economic terms and/or in accordance with its expectations; the ability of the Group to identify and acquire additional solar power projects, and assumptions relating to management's assessment of the impact of the new Japanese FiT regime. The foregoing factors, assumptions and risks are not exhaustive and are further discussed in Etrion's most recent Annual Information Form and other public disclosure available on SEDAR at [www.sedar.com](http://www.sedar.com). Actual results, performance or achievements could differ materially from those expressed in, or implied by, such forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits will be derived therefrom. Investors should not place undue reliance on forward-looking information. Except as required by law, Etrion does not intend to update or revise any forward-looking information, whether as a result of new information, future events or otherwise. The information contained in this MD&A is expressly qualified by this cautionary statement.

## **ADDITIONAL INFORMATION**

Additional information regarding the Company, including its Annual Information Form, may be found on the SEDAR website at [www.sedar.com](http://www.sedar.com) or by visiting the Company's website at [www.etrion.com](http://www.etrion.com).