2016

ETRION CORPORATION

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2016

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

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 or pre-construction, 45 MW of backlog projects and 200 MW of additional pipeline.

CONTENTS

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 March 10, 2017, should be read in conjunction with the Company's consolidated financial statements and accompanying notes for the year ended December 31, 2016. Financial information is reported in United States dollars ("$" or "USD"). However, certain material financial information has also been reported in Japanese yen ("¥") and Euros ("€"), because the Company has its main business activities in Japan and had operations in Italy, which were fully divested in December 2016. The Company remains with an asset in Chile that is reported in $. Exchange rates for the relevant currencies of the Group with respect to the $ and the € are as follows:

	€/¥	$/¥	€/$
Closing rate at December 31, 2016	123.06	117.11	1.05
Closing rate at December 31, 2015	131.68	120.41	1.09
Twelve months average rate December 31, 2016	120.35	108.84	1.11
Twelve months average rate December 31, 2015	134.27	121.03	1.11

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.

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 16). 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 16). 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 27.

FOURTH QUARTER AND FULL YEAR 2016 HIGHLIGHTS

OPERATIONAL HIGHLIGHTS

- In December 2016, the Group completed the sale of its 60 megawatts ("MW") Italian solar portfolio to EF Solare Italia, a joint venture owned equally by Enel Green Power S.p.A. and Fondo Italiano per le Infrastrutture "F2i". With the closing of this transaction, the Group has fully-exited from its business in Italy.
- The Company is fully refocusing its strategy and all of its financial and human resources to its operations and growth in Japan. Management believes Japan presents the highest opportunity to create value in a very low risk jurisdiction environment. As a result of this strategy, the Company has divested in full from Italy and has prioritized all of its development in Japan.
- Successfully completed the development of the 9.5 MW Aomori and 13.2 MW Komatsu solar power projects, both currently under construction with expected completion by the third quarter of 2017 and second quarter of 2018, respectively.
- Significantly 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 towards the second half of 2017. The Company is also advancing the development of additional projects in Japan with a combined capacity of 200 MW.
- On October 20, 2016, the Group's 24.7 MW Shizukuishi solar project in northern Japan achieved its commercial operation date, became 100% operational and started collecting revenues from its electricity production.
- Produced 15.2 million kilowatt-hours ("kWh") of electricity from the Company's 87%-owned 34 MW portfolio comprising 6 solar power plant sites in Japan.
- Produced 159.4 million kWh of electricity from the Company's 70%-owned 70 MW Salvador solar power plant in Chile ("Project Salvador").
- Until the date of disposal, the Italian assets produced approximately 98.8 million KWh from the Company's disposed solar portfolio comprising 17 solar power plants.

FINANCIAL HIGHLIGHTS

- Generated revenues and solar segments EBITDA of $15.2 million and $7.0 million, respectively,
- Generated a gain on the sale of its Italian assets of $61.3 million. After transactions costs of $3.1 million, the Group increased its cash position by approximately US$79.6 million as a result of this sale.
- In December 2016, the Company repurchased for cash a nominal amount of €40 million corporate bond at a price of 100% of par value plus accrued unpaid interest. Following completion of the bond repurchase transaction, the Company has outstanding €40 million in nominal amount of corporate bonds and effectively reduced its annual interest cost by 50%.
- Closed 2016 with a cash balance of $61.2 million, $42.3 million of which was unrestricted and held at the parent level, and working capital of $45.3 million.
- During 2016 the Company reached financial close for the two new solar projects in Japan, securing approximately US$61 million non-recourse facilities with Sumitomo Mitsui Trust Bank ("SuMi Trust") to finance the construction of the 9.5 MW Aomori project and the 13.2 MW Komatsu project.

FOURTH QUARTER AND FULL YEAR 2016 HIGHLIGHTS

USD thousands (unless otherwise stated)	Three months ended Q4-16	Q4-15	Twelve months ended 2016	2015
Electricity production (MWh)[1]	**54,660**	**46,090**	**174,617**	**162,517**
Financial results				
Revenues	4,979	1,790	15,233	10,416
Gross profit (loss)	361	(2,345)	(3,566)	(4,473)
EBITDA	(713)	(2,230)	(415)	(4,006)
Adjusted EBITDA	(713)	(1,956)	(778)	(3,440)
Net loss from continuing operations	(8,037)	(6,174)	(110,378)	(27,464)
Profit from discontinued operations	29,018	4,366	35,960	8,727
Net gain (loss)	20,981	(1,808)	(74,418)	(18,737)
Adjusted net loss	(6,544)	(2,784)	(17,741)	(12,826)
Cash flow				
Cash flow (used in) from operations	(6,152)	73,405	(3,257)	15,407
Adjusted operating cash flow	(1,072)	(2,823)	(495)	(4,076)

	December 31 2016	December 31 2015
Balance sheet		
Total assets	288,641	613,320
Operational assets	187,644	457,745
Unrestricted cash at parent level	42,286	17,582
Restricted cash at project level	18,888	34,917
Working capital	45,257	1,459
Consolidated net debt on a cash basis	225,700	489,029
Corporate net debt (cash)	(98)	69,514

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 and two projects under construction 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.

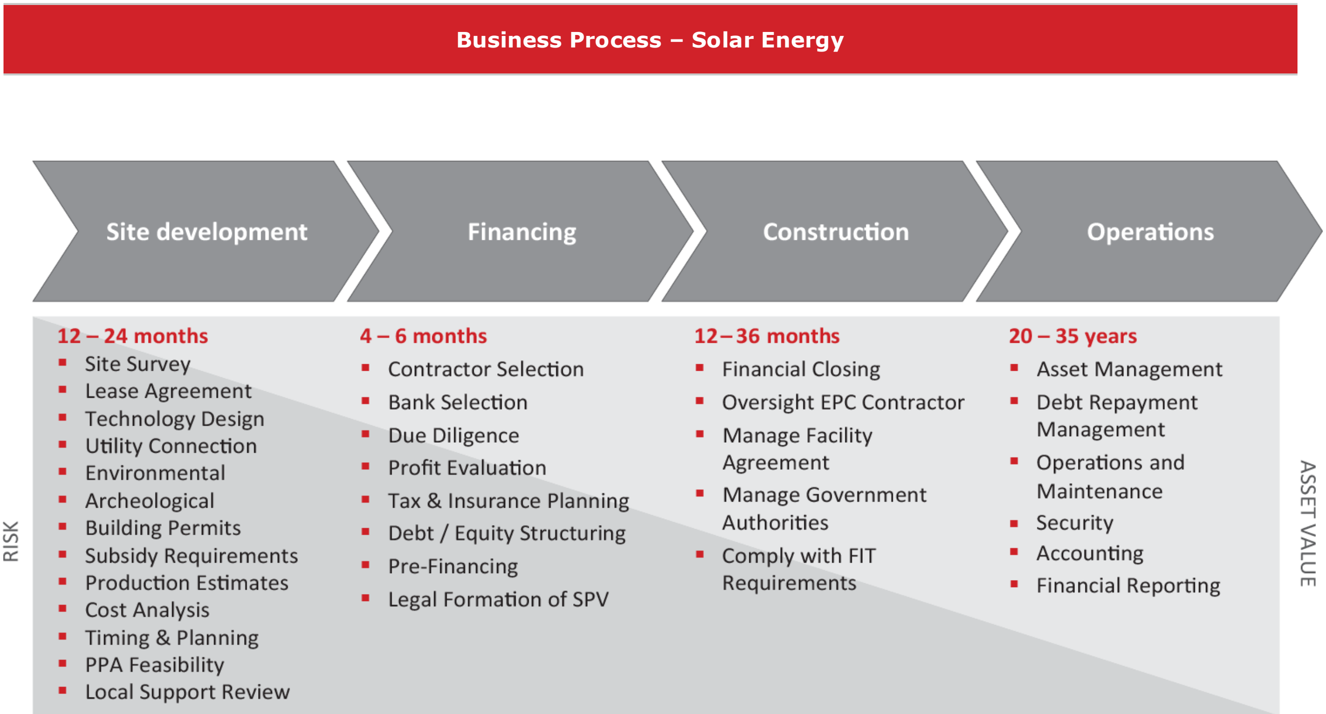
The Company's business model focuses on six key drivers for success: (1) stable revenues; (2) low risk jurisdictions ; (3) strategic partnerships; (4) low equipment cost and operating expenses; (5) available long-term financing; and (6) low cost of debt.

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 Tokyo, Japan. As of the date of this MD&A, the Company has a total of 28 employees.

[1] MWH=Megawatt-hour

The development of a solar power plant can be described as going through four phases: (1) site development, (2) project financing, (3) construction and (4) operations and asset management.

- <u>Phase 1</u> represents the period in which a project secures all permitting risks, authorizations and utility interconnection agreements to build a solar power plant. Depending on the jurisdiction, this process may vary in length between 12 to 24 months. Where projects are developed from their infancy ("greenfield" projects), the development time will generally be close to 2 years. However, Etrion often enters into co-development agreements with local development companies to reduce development time and risk. The Company may also acquire permits at advanced stages from local developers to further reduce the time to market. In all cases, whether the projects in the pipeline are greenfield, co-development or acquired, they go through a rigorous development process to de-risk the projects before any investments are made. In addition to evaluating all development risks, Etrion works extensively to optimize the design and reduce construction costs to further improve each project's economics.
- <u>Phase 2</u> generally takes 4 to 6 months, during which the Company assesses and selects various contractors and lenders, including contractors responsible for the engineering, procurement and construction ("EPC") of the solar power plant. The Company analyzes the financial aspects of the project, assessing tenor, debt/equity structuring, cost and the selection of lenders. Furthermore, in phase 2, the Company evaluates potential legal structure of the special purpose vehicle that will function as the local operating subsidiary. This process may be shortened when the projects are financed directly by the Company and then refinanced once construction and grid connection is complete.
- <u>Phase 3</u> generally requires 12 to 36 months of work. During this phase, the Company enters into an EPC contract, and the projects are built with a view to ensuring that the local operating subsidiary complies with the FiT or PPA requirements. Under an EPC contract, the contractor is generally hired on a turn-key fixed-price basis and is required to, at its own risk, design the installation for the project, procure the necessary materials and construct the project by a certain date. As a result, the contractor generally bears a portion of the risk for scheduling as well as budgeting in return for a guaranteed fixed price.
- <u>Phase 4</u> solar projects are designed to operate with a minimum life time of 30 years. The Company has in-country resources engaged in the operation of the solar power plants. Activities include, managing day to day project level accounting, administration, tax reporting and overall administration of all project related compliance with regulations. In this phase, the Company usually retains the EPC contractor to also provide operations and maintenance services based on fixed price contracts.



PPA = power purchase agreement
SPV = special purpose vehicle (operational subsidiary)
EPC = engineering, procurement and construction
FIT = feed-in-tariff

OPERATIONS REVIEW

OPERATIONS REVIEW – THREE MONTHS ENDED DECEMBER 31

USD thousands (unless otherwise stated)	Q4-16 Chile	Q4-16 Japan	Q4-16 Total	Q4-15 Chile	Q4-15 Japan	Q4-15 Total
Operational data (1)						
Electricity production (MWh)	48,677	5,984	**54,661**	43,800	2,990	**46,790**
Operational performance (1)						
Electricity revenue						
Feed-in-Tariff	-	2,327	**2,327**	-	760	**760**
Market price	243	-	**243**	896	-	**896**
PPAs	2,152	-	**2,152**	-	-	**-**
Other utility income	257	-	**257**	134	-	**134**
Total revenues	**2,652**	**2, 327**	**4,979**	**1,030**	**760**	**1,790**
EBITDA (2)	**923**	**1,944**	**2,867**	**(358)**	**421**	**63**
EBITDA margin (%)	**35%**	**84%**	**58%**	**(35%)**	**56%**	**4%**
Net (loss) income	**(3,582)**	**460**	**(3,122)**	**(1,468)**	**(146)**	**(1,614)**

(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 14.

OPERATING PERFORMANCE

Power Production

During Q4-16, the Group produced 19% more electricity compared to the same period in 2015, due primarily to the strong performance in Japan, additional production of the Shizukuishi project and better irradiation in Chile.

Japanese projects

The Japanese projects produced a total of approximately 6.0 million kWh of electricity during Q4-16, more than two times compared to the same period in 2015, due to the high irradiation, high performance ratio and the incremental production from the Shizukuishi solar power project connected in October 2016.

Chilean project

Project Salvador's production of approximately 48.7 million kWh of electricity during Q4-16 was 11% more than the comparable period in 2015 due to better solar irradiation and less curtailments.

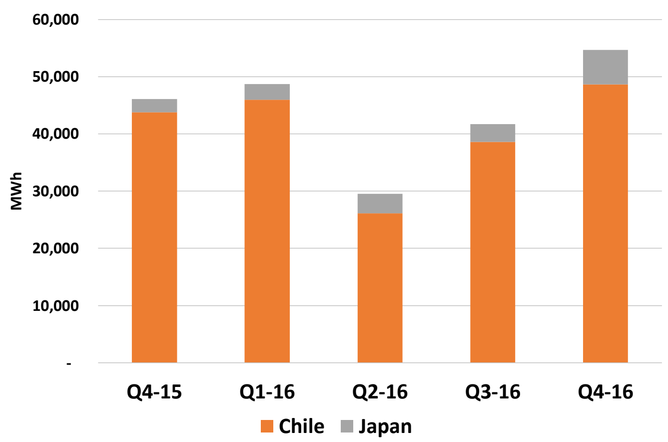
In general, Project Salvador's production is being affected by the electricity curtailments applied to all generators in the area near Project Salvador to balance supply and demand due to network bottlenecks. These bottlenecks are expected to be resolved by early 2018.

During Q4-16, approximately 21.8 million kWh were sold under the terms of a PPA agreement that started on January 1, 2016. Starting in July 2015, the Group also receives a capacity payment associated with its operation in Chile through its 70%-owned subsidiary, PV Salvador SpA ("Salvador"). The capacity payment is a monthly amount received by Salvador from other energy producers in the spot market and is calculated based on Project Salvador's production capacity, the maximum system demand in the peak period and a fixed tariff calculated by the Chilean authorities every six months (currently $9/kWh).

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 236 million kWh on an annual basis.



Electricity prices

The Group receives revenues denominated in USD and Japanese yen from its operating solar projects, depending on the market in which each project operates. Revenues come from three components: (1) the FiT system, whereby a premium constant price is received for each kWh of electricity produced through a 20-year contract with the Japanese public utility, Tokyo Electric Power Company ("TEPCO") or Tohoku Electric Power Co., Inc. ("Tohoku Electric Power Utility") or ("TOHOKU"), as applicable, (2) the spot market price ("Market Price") received for each kWh of electricity produced in Chile, and (3) contracted PPAs within Chile, whereby a fixed price is received for each kWh of electricity sold under private electricity sale agreements.

Japanese projects

In Japan, during Q4-16 the Group received the FiT of ¥40 per kWh applicable to Mito and the Shizukuishi solar park site operational since October 2016.

Chilean project

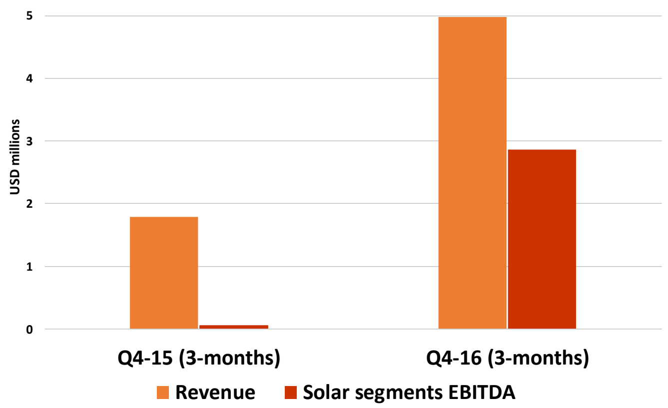
In Chile, during Q4-16 the average Market Price received by Project Salvador was $0.005 per kWh. The Market Price in the Sistema Interconectado Central ("SIC") electricity network in Chile was particularly low during Q4-16 due to a local grid congestion.

During 2016, the Group recognized an impairment charge of $75.7 million associated with the recoverable value of Salvador's operating assets as a result of the low projections for spot market prices of electricity in Chile.

Starting January 1, 2016, the Group also recognizes PPA revenues from Project Salvador. The PPA is for the first 70 gigawatt-hours ("GWh") per year of Project Salvador's production for 15 years with the electricity price denominated in USD (approximately $0.10 per kWh, CPI adjusted). In addition, according to the terms of the contract, Salvador pays the cost of electricity in the withdrawal node at the off-taker ("Nodal Costs"). During the three and twelve months ended December 31, 2016, the average Nodal Costs were approximately $0.029 per kWh and $0.046 per kWh and the price to Project Salvador net of Nodal Costs was $0.071 per kWh and $0.054 per kWh.

Revenue and project-level EBITDA

During Q4-16 the Group's revenue and project-level EBITDA increased significantly compared to the same period in 2015, primarily due to the strong performance and incremental production in Japan, an overall production increase in Chile, and PPA revenues from Project Salvador, partially offset by lower Market Price affecting part of the electricity produced Chile.



Revenues from Japan are received in Japanese yen and have been translated to the Group's functional (€) and presentation ($) currencies using the corresponding Q4-16 average rates.

Accordingly, changes in the €/$ applicable exchange rates have an impact in the accounting conversion process of the income statement to the Group's reported figures in USD.

OPERATIONS REVIEW – YEAR ENDED DECEMBER 31

USD thousands (unless otherwise stated)	2016 Chile	2016 Japan	2016 Total	2015 Chile	2015 Japan	2015 Total
Operational data [1]	159,397	15,221	**174,618**	157,018	5,499	**162,517**
Electricity production (MWh)						
Operational performance [1]						
Electricity revenue						
Feed-in-Tariff	-	5,723	**5,723**	-	1,825	**1,825**
Market price	1,686	-	**1,686**	8,269	-	**8,269**
PPAs	6,904	-	**6,904**	-	-	**-**
Other utility income	920	-	**920**	322	-	**322**
Total revenues	**9,510**	**5,723**	**15,233**	**8,591**	**1,825**	**10,416**
EBITDA [2]	**2,442**	**4,501**	**6,943**	**3,604**	**1,251**	**4,855**
EBITDA margin (%)	**26%**	**79%**	**46%**	**42%**	**69%**	**47%**
Net (loss) income	**(100,756)**	**981**	**(99,775)**	**(11,379)**	**109**	**(11,269)**

(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 15.

OPERATING PERFORMANCE

Power Production and Electricity Prices

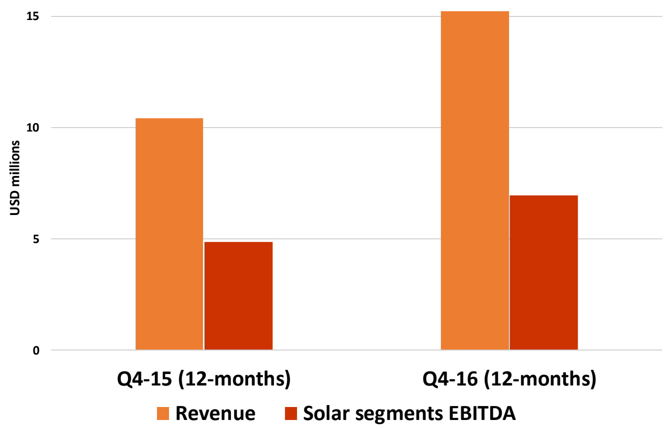
During 2016, the Group produced 7.4% more electricity compared to the same period of 2015, due primarily to the strong performance and increased capacity in Japan, as well as lower curtailments in Chile.

In Japan, the Group received the FiT of ¥40 per kWh applicable to Mito and to the Shizukuishi solar park site operational since October 2016.

In Chile, the average Market Price received by the Group in 2016 for Project Salvador was \$0.011 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 agreement, representing a significant contribution to the revenue generating capacity in Chile in comparison with 2015.

Revenue and project-level EBITDA

During 2016, the Group's revenue and project-level EBITDA increased by 46% and 43%, respectively, compared to the same period in 2015, primarily due to the strong performance and incremental production in Japan, an overall production increase in Chile, and PPA revenues from Project Salvador, partially offset by lower Market Price affecting part of the electricity produced Chile.



DISCONTINUED OPERATION

In December 2016, the Group completed the sale of its 60 MW Italian solar portfolio to EF Solare Italia. With the closing of this transaction, the Group has fully-exited from its business in Italy. The Italian subsidiaries are reported in the current period as a discontinued operation. Financial information relating to the discontinued operations for the period to the date of disposal is set out below.

USD thousands (unless otherwise stated)	2016	2015
Operational data		
Electricity production (MWh)	98,765	102,433
Operational performance		
Electricity revenue		
Feed-in-Tariff	33,792	34,690
Market price	4,246	5,342
Total revenues	**38,038**	**40,032**
EBITDA	**32,435**	**34,244**
EBITDA margin (%)	**85%**	**86%**
Net income	**7,622**	**8,727**

Power Production

During 2016 and until the date of disposal, the Italian solar projects produced approximately 98.8 million kWh of electricity, less than in 2015 because the Group recognized revenue and production until December 12, 2016 for 53.4 MW and until December 23, 2016 for the remaining 6.7 MW of the solar assets portfolio.

Electricity Prices

During 2016 and 2015, the Group realized the weighted average FiT price of €0.30 per kWh applicable to all its previously owned solar projects in Italy. The average Italian Market Price decreased by approximately 20% as the Group received an average of €0.040 per kWh in 2016 compared to €0.050 per kWh during the same period in 2015, as a result of the combined effect of low demand and lower cost of fuel (mainly natural gas).

Details of the sale of the Italian subsidiaries

On November 14, 2016, The Group announced the signing of a definitive sale and purchase agreement with EF Solare Italia for the disposal of its 100% economic interest in Etrion Spa and Helios ITA, Srl, the Italian subsidiaries holding or owning the economic interest and rights over the 60 MW operational solar power plants in Italy, which comprise the Group's entire Solar Italy segment. Etrion SpA was sold on December 12, 2016 and Helios ITA was sold on December 23, 2016, after obtaining certain approvals, bank waivers and completing other regular closing procedures.

Sale proceeds consisted of €78.1 million in cash and €24 million of contingent consideration depending on the outcome of certain legal and regulatory proceedings.

	€	$
Total cash consideration at closing	78,078	82,652
Less (-) proceeds from shareholder loans	(6,118)	(6,473)
Cash received for the sale of shares	**71,960**	**76,179**
Carrying amount of net assets sold	(15,232)	(16,105)
Goodwill at date of sale	(1,311)	(1,390)
Foreign exchange translation	-	2,640
Gain on sale of subsidiaries	**55,417**	**61,324**

Upon the execution of the sale and purchase agreement, the 100% participation in the shares of the Italian subsidiaries and the shareholder loans outstanding from these entities were both acquired by EF Solare Italia for €72.0 million ($76.2 million) and €6.1 million ($6.5 million), respectively.

Etrion's management has assessed the nature of the earn-out clauses and have concluded that they do not meet the recognition criteria to be considered as part of the proceeds at the closing date and therefore have not accounted for this in the Group's consolidated financial statements.

Transaction costs directly attributable to this sale transaction of approximately $3.1 million have been recognized as part of the results from the discontinued operation.

Performance and cash flow information

The financial performance presented is for the period ended the disposal dates in 2016 and the year ended December 31, 2015.

	2016	2015
Revenue	38,038	40,032
Operating expenses	(4,145)	(5,450)
General and administrative expenses	(1,196)	(945)
Other (expense) income	(262)	608
EBIDTA	**32,435**	**34,245**
Depreciation and amortization	(11,551)	(13,158)
Finance income	739	103
Finance costs	(12,515)	(20,866)
Income before tax expense	**9,108**	**324**
Net income tax (expense) recovery	(1,486)	8,403
Net income after tax	**7,622**	**8,727**
Gain on sale of subsidiaries	61,324	-
Accumulated hedging losses	(29,884)	-
Transaction costs	(3,102)	-
Profit from discontinued operation	**35,960**	**8,727**
Cash flow from discontinued operation		
Net cash inflow from operating activities	27,485	6,448
Net cash inflow from investing activities	1,035	-
Net cash outflow from financing activities	(22,386)	(28,235)
Net increase in cash	**6,134**	**(21,797)**

OPERATING PROJECTS - JAPAN

Mito

As of the date of this MD&A, the remaining PPA contract life of Mito is approximately 19 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
Total		**5**	**9.3**		

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

Mito is a 9.3 MW utility-scale solar photovoltaic power project consisting of five sites in the Ibaraki Prefecture of Japan. Construction began in October 2014, with the last site connected in August 2015. The solar power plant was built on 28.3 hectares of leased land, and the facilities connect through TEPCO. In December 2014, the project company entered into two of the five planned 20-year PPAs with TEPCO under which the project company receives ¥40 per kWh produced (approximately $0.34 per kWh). The remaining three PPAs were signed in March 2015. The total project cost of approximately ¥3.4 billion (approximately $33.5 million) was financed 80% through non-recourse project debt from SuMi Trust with the remaining approximately 20% equity portion funded by the Group and Hitachi High-Tech ("HHT") based on their respective ownership interests of approximately 87% and 13%. Mito has entered into a long-term fixed price O&M agreement with HHT. Etrion charged the Mito project with a net development fee of approximately ¥162 million ($1.6 million).

Shizukuishi

As of the date of this MD&A, the remaining PPA contract life of Shizukuishi is approximately 20 years. The Group's 87%-owned operating solar power project in Japan is shown below:

Project	Region	Sites	Gross MW	Technology	Expected Connection date
Shizukuishi	Iwate	1	24.7	Fixed-tilt	Oct-2016
Total		**1**	**24.7**		

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

Shizukuishi is a 24.7 MW utility-scale solar photovoltaic power plant on one site in the Iwate Prefecture of Japan. Construction-related work began in October 2014 and on October 20, 2016, Shizukuishi achieved its commercial operation date, became 100% operational and started collecting revenues from its electricity production.

The solar power plant was built on 51 hectares of leased land, and the facility will connect through TOHOKU. The project entered into a 20-year PPA with the TOHOKU to receive ¥40 per kWh produced (approximately $0.34 per kWh). The total project cost of approximately ¥8.9 billion (approximately $87.8 million) is financed 80% with non-recourse project debt from SuMi Trust, with the remaining approximately 20% equity portion already funded by the Group and HHT based on their respective ownership interests of approximately 87% and 13%. Shizukuishi has entered into a long-term fixed price O&M agreement with HHT. Etrion charged the Shizukuishi project with a net development fee of approximately ¥677.4 million ($6.7 million).

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
Total		**1**	**70**		

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

Project Salvador is located in the Atacama region of northern Chile and consists of one ground-mounted solar PV park with a total capacity of 70 MW. The solar park was built by SunPower using SunPower high-efficiency, single-axis tracker technology and ABB inverters. Project Salvador has an O&M contract with SunPower and approximately 65% of the electricity produced is currently sold on the spot market and delivered to the SIC electricity network. In May 2015, Project Salvador executed a long-term PPA with EE-ERNC-1. The PPA is for the first 70 GWh of Project Salvador's production for 15 years and started on January 1, 2016, with the electricity price denominated in USD (approximately $0.10 per KWh) and inflated according to the US Consumer Price Index ("CPI"). Etrion currently owns 70% of Project Salvador. Project Salvador was connected to the electricity grid on November 3, 2014, and reached full operational capacity on January 10, 2015.

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 projected by the end of 2016. This is expected to reach 52 GW by the end of 2019.[2] Etrion is currently allocating substantitally all of its resources and management to further develop this market.

Aomori

Project	Region	Sites	Gross MW	Technology	Expected Connection date
Aomori	Tohoku	4	9.5	Fixed-tilt	July-2017
Total		**4**	**9.5**		

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. The solar power plant is being built on 16.3 hectares of owned land, and the facilities will connect through Tohoku Electric Power utility. Each project site will enter into a 20-year PPA with the Tohoku Electric Power utility to receive ¥36 per kWh produced (approximately $0.31 per kWh). The total project cost of approximately ¥3,483 billion (approximately $34 million) is being financed 85% with non-recourse project debt from SMTB with the remaining approximately 15% equity portion already funded by the Group, HHT and Tamagawa Holdings Co ("Tamagawa") based on their respective ownership interests of 60%, 10% and 30%, respectively. Aomori has entered into a long-term fixed price O&M agreement with

[2] Bloomberg New Energy Finance

HHT. Once operational, Aomori is expected to produce approximately 10.7 million kWh of solar electricity per year.

Etrion has charged the Aomori project with a net development fee of approximately ¥177 million ($1.7 million).

Komatsu

Project	Region	Sites	Gross MW	Technology	Expected Connection date
Komatsu	Honsu	1	13.2	Fixed-tilt	July-2018
Total		**1**	**13.2**		

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. Pre-construction-related works began in February 2017, and the solar project is expected to be fully operational by the second quarter of 2018. The solar power plant is being built on 30.5 hectares of leased land and the facilities will connect through the Hokuriku Electric Power Co., Inc. ("Hokuriku Electric Power utility"). The project company will entered into a 20-year PPA with the Hokuriku Electric Power utility to receive ¥32 per kWh produced (approximately $0.27 per kWh). The total project cost of approximately ¥4,285 billion (approximately $38 million) is being financed 83% with non-recourse project debt from SMTB with the remaining approximately 17% equity portion already funded by the Group and HHT based on their respective ownership interests of 85.1% and 14.9%, respectively. Komatsu has entered into a long-term fixed price O&M agreement with HHT. 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).

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 up to 85% in these projects, with HHT and/or local development partners owning the remainder.

Project	Region	Sites	MW	Technology
Kumamoto	South	1	45	Fixed-tilt
Total backlog		**1**	**45**	
Brownfield 1	Central	1	55	Fixed-tilt
Brownfield 2	Central	1	45	Fixed-tilt
Greenfield 1	Central	1	40	Fixed-tilt
Other early stage			60	Fixed-tilt
Total early stage			**200**	
Total pipeline			**245**	

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 onwer. Etrion has secured exclusivity with the developer and the grid impact studies are complete. The project is expected to be shovel-ready by the second half 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 activitites to reduce civil and installation works. Therefore it is not providing at this time an updated estimated total project costs associated with the develpment and construction of the backlog project. Total project costs are expected to be financed with a minimum of 85% 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 these Japanese backlog projects is likely to be contributed throughout the construction period, typically expended over a two year construction period, rather than at the start of constuction.

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 by 2018.

Japan Brownfield Project 2 is a 45 MW solar project in central Japan with FiT and land exclusivity secured. The project is going through the permitting process and PPA negotiations with the utility. The project is expected to be shovel-ready by the first half of 2018.

Japan Greenfield Project 1 is a 40 MW solar project in central Japan with land exclusivity secured. The FiT application for this project has been filed. The project is expected to be shovel-ready in 2018.

Etrion is also advancing on other several project under early stage negotiations for a minimum capacity of additional 60 MW.

PROJECTS UNDER DEVELOPMENT - CHILE

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

The Company's 72 MW of shovel-ready projects, consisting of three sites in the Antofagasta region in Chile (Aguas Blancas) have been abandoned. Capitalized development costs associated with these projects were fully impaired in 2015.

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.

Japan has implemented an attractive 20-year FiT program of ¥40 per kWh for projects secured by March 31, 2013, ¥36 per kWh for projects secured by March 31, 2014, and ¥32 per kWh for projects secured by March 31, 2015. The FiT was changed to ¥29 for projects secured from April 2015, ¥27 from July 2015 and recently changed to ¥24 from April 2016.

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 3 years from 1 April 2017 (i.e. by 31 March 2020); most probably will result in reduced FiT payments periods after these three years time,

• 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 2 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

SELECTED FINANCIAL INFORMATION

During 2016, the Group's performance and results from continuing operations were positively impacted by the incremental production of electricity in Japan and new PPA revenues recognized in Chile. Therefore revenue and project-level EBITDA increased in comparison with 2015. Nevertheless, consolidated net results were negatively impacted by an impairment charge of $75.7 million associated with its solar assets, lower than expected Market Price and also due to higher than expected Nodal Costs, all from Project Salvador in Chile. Total net results in 2016 also include profits from the discontinued operation, including the $61.3 million gain on the disposal of the Italian subsidiaries. Selected consolidated financial information, prepared in accordance with IFRS, is as follows:

	Three months ended		Twelve months ended	
USD thousands (except per share data)	**Q4-16**	**Q4-15**	**Q4-16**	**Q4-15**
Revenue	**4,979**	**1,790**	**15,233**	**10,416**
Gross profit (loss)	361	(2,345)	(3,566)	(4,473)
Net income (loss)	**29,981**	**(1,808)**	**(74,418)**	**(18,737)**
Net income (loss) attributable to owners of the Company	**30,070**	**3,021**	**(43,153)**	**(15,317)**
Basic and diluted loss per share	**$0.09**	**$0.01**	**$(0.24)**	**$(0.07)**
Net loss from continuing operations	**(8,037)**	**(6,174)**	**(110,378)**	**(27,464)**
Adjustments to net loss for:				
Net income tax expense	(196)	(3,925)	7,450	(5,770)
Depreciation and amortization	2,519	2,849	10,957	10,269
Impairment	-	-	75,953	2,881
Share-based payment expense	180	(159)	442	496
Net finance costs	4,779	4,530	15,381	15,588
Other income	(317)	55	(300)	(77)
Income tax paid	40	(125)	(1,172)	(289)
Changes in working capital	(5,120)	76,353	(1,590)	19,772
Operating cash flow	**(6,152)**	**73,405**	**(3,257)**	**15,407**

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

USD thousands	**December 31 2016**	**December 31 2015**
Non-current assets	214,290	531,377
Current assets	74,351	81,943
Total assets	**288,641**	**613,320**
Non-current liabilities	305,836	526,432
Current liabilities	29,094	80,484
Total liabilities	**334,930**	**606,916**
Net (liabilities) assets	(46,289)	6,404
Working capital	45,257	1,459
Dividends declared	-	-

SEGMENT INFORMATION

During 2016, management considered whether the operating segment disclosures continued to be appropriate in light of the company's strategic plan and introduced certain changes in the composition of Etrion's reportable segments. Management now considers reportable segments from a geographical perspective and measures performance based on earnings before interest, tax, depreciation and amortization ("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 interim consolidated financial statements. To ensure a consistent comparison to the new structure, the prior year segmental information has been represented.

SEGMENT INFORMATION THREE MONTHS ENDED DECEMBER 31

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

USD thousands	2016				2015			
	Solar Chile	Solar Japan	Corporate	Total	Solar Chile	Solar Japan	Corporate	Total
Revenue	**2,652**	**2,327**	**-**	**4,979**	**1,030**	**760**	**-**	**1,790**
Operating expenses (Opex)	(1,708)	(444)	-	(2,151)	(1,215)	(147)	-	(1,362)
General and administrative (G&A)	(43)	(67)	(3,747)	(3,858)	(173)	(190)	(2,240)	(2,603)
Other income (expenses)	22	128	167	317	-	(2)	(53)	(55)
EBITDA	**923**	**1,944**	**(3,580)**	**(713)**	**(358)**	**421**	**(2,293)**	**(2,230)**
Depreciation and amortization	(1,318)	(1,148)	(53)	(2,519)	(2,445)	(329)	(75)	(2,849)
Finance income	(53)	145	1,156	1,248	28	2	1,257	1,287
Finance costs	(3,134)	(478)	(2,637)	(6,249)	(3,361)	(225)	(2,721)	(6,307)
(Loss) income before income tax	**(3,582)**	**463**	**(5,114)**	**(8,233)**	**(6,136)**	**(131)**	**(3,832)**	**(10,099)**
Income tax (expense) recovery	-	(3)	198	195	4,668	(15)	(728)	3,925
Net (loss) income for the period	**(3,582)**	**460**	**(4,916)**	**(8,037)**	**(1,468)**	**(146)**	**(4,560)**	**(6,174)**

Solar Chile: During Q4-16, the Group's Chilean solar segment generated revenues of $2.7 million and EBITDA of $0.9 million, representing a significant increase in comparison with the same period in 2015, mainly driven by the electricity sales under the PPA. The Group's Chilean segment generated a net loss of $3.6 million, in comparison with the net loss result of $1.5 million for the same period in 2015, mainly as a result of low spot market prices in Chile, only partially offset by management strategies to reduce the cost of operations. However, In comparison with the same period in 2015, total net loss before tax decreased as a result of the above mentioned positive effect of electricity sales under the PPA contract.

Solar Japan: During Q4-16, the Group's Japanese solar segment generated revenues of $2.3 million and EBITDA of $1.9 million, which represented a significant increase in comparison with the same period in 2015, driven by the additional production from the Shizukuishi solar project and production above expectations due to good irradiation and performance. In addition, the Group's Japanese segment generated a net income of $0.5 million, in comparison with the net loss result of $0.2 million for the same period in 2015.

Corporate: During Q4-16, the Group's corporate segment generated negative EBITDA of $3.6 million and a net loss of $5.3 million, respectively, mainly due to corporate general and administrative expenses and finance costs associated with the Company's corporate bond.

SEGMENT INFORMATION TWELVE MONTHS ENDED DECEMBER 31

	2016				2015			
	Solar Chile	Solar Japan	Corporate	Total	Solar Chile	Solar Japan	Corporate	Total
Revenue	**9,510**	**5,723**	**-**	**15,233**	**8,591**	**1,825**	**-**	**10,416**
Operating expenses (Opex)	(6,896)	(1,162)	-	(8,058)	(4,639)	(308)	-	(4,947)
General and administrative (G&A)	(149)	(194)	(7,547)	(7,890)	(348)	(264)	(8,940)	(9,552)
Other income (expenses)	(23)	134	189	300	-	(2)	79	77
EBITDA	**2,442**	**4,501**	**(7,358)**	**(415)**	**3,604**	**1,251**	**(8,861)**	**(4,006)**
Impairment	(75,675)	-	(278)	(75,953)	-	-	(2,881)	(2,881)
Depreciation and amortization	(8,497)	(2,244)	(216)	(10,957)	(9,309)	(633)	(327)	(10,269)
Finance income	223	164	5,725	6,112	684	23	5,425	6,132
Finance costs	(12,395)	(1,181)	(8,139)	(21,715)	(13,155)	(397)	(8,658)	(22,210)
(Loss) income before income tax	**(93,902)**	**1,240**	**(10,266)**	**(102,928)**	**(18,176)**	**244**	**(15,302)**	**(33,234)**
Income tax (expense) recovery	(6,854)	(259)	(337)	(7,450)	6,797	(135)	(892)	5,770
Net (loss) income for the year	**(100,756)**	**981**	**(10,603)**	**(110,378)**	**(11,379)**	**109**	**(16,194)**	**(27,464)**

Solar Chile: During 2016, the Group's Chilean solar segment generated revenues of $9.5 million and EBITDA of $2.4 million, which represented an increase of 11% and a decrease of 32%, respectively, in comparison with the same period in 2015. The increase in revenue is due to the electricity sales under the terms of the PPA, only partially offset by lower Market Price in Chile. The Group's Chilean segment generated a net loss of $100.8 million, in comparison with the net loss result of $11.4 million for the same period in 2015, mainly as a result of the impairment of $75.7 million associated with the recoverable value of the solar power plant and intangibles, recognized during the third quarter of 2016. Electricity sales under the terms of the PPA have positively contributed to reduce the impact of adverse market conditions, together with management strategies to reduce the cost of operations.

Solar Japan: During 2016, the Group's Japanese solar segment generated revenues of $5.7 million and EBITDA of $4.5 million, representing a significant increase in comparison with the same period in 2015, mainly driven by the increase in production following the connection of the Shizukuishi solar project and outstanding performance of the assets. The electricity production and performance in Japan during this period is not fully comparable with the same period in 2015 because Shizukuishi was operational only from the end of October 2016. However, the Japanese assets are performing above expectations both in terms of irradiation and performance. In addition, the Group's Japanese segment generated a net income of $1.0 million, in comparison with the net income result of $0.1 million for the same period in 2015.

Corporate: During 2016, the Group's corporate segment generated negative EBITDA of $7.4 million and a net loss of $10.6 million, mainly due to corporate general and administrative expenses and finance costs associated with the Company's corporate bond. The overall negative EBITDA in the corporate segment have reduced in comparison with the same period in 2015 due to reductions in general and administrative expenses.

NON-GAAP PERFORMANCE MEASURES

Reconciliation of adjusted net loss to net loss USD thousands	Three months ended Q4-16	 Q4-15	Twelve months ended Q4-16	 Q4-15
Net loss	**(8,037)**	**(6,174)**	**(110,378)**	**(27,464)**
Adjustments for non-recurring items:				
General and administrative expenses	-	274	-	566
Net deferred tax write off	-	-	6,854	-
Impairment	-	-	75,953	2,881
RSUs expense reversal	-	-	(363)	-
Adjustments for non-cash items:				
Depreciation and amortization	2,519	2,849	10,957	10,269
Fair value movements (derivative financial instruments)	(1,206)	426	(1,206)	426
Share-based payment expense	180	(159)	442	496
Adjusted net loss	**(6,544)**	**(2,784)**	**(17,741)**	**(12,826)**

Reconciliation of adjusted operating cash flows to operating cash flows USD thousands	Three months ended Q4-16	 Q4-15	Twelve months ended Q4-16	 Q4-15
Operating cash flow	**(6,152)**	**73,405**	**(3,257)**	**15,407**
- Changes in working capital	5,120	(76,353)	1,590	(19,772)
- Income tax paid	(40)	125	1,172	289
Adjusted operating cash flow	**(1,072)**	**(2,823)**	**(495)**	**(4,076)**

Reconciliation of Solar segments Adjusted EBITDA to EBITDA USD thousands	Three months ended Q4-16	 Q4-15	Twelve months ended Q4-16	 Q4-15
Net loss	**(8,037)**	**(6,174)**	**(110,378)**	**(27,464)**
Adjustments for:				
Net income tax expense	(196)	(3,925)	7,450	(5,770)
Net finance costs	5,001	5,020	15,603	16,078
Depreciation and amortization	2,519	2,849	10,957	10,269
Impairment	-	-	75,953	2,881
EBITDA	**(713)**	**(2,230)**	**(415)**	**(4,006)**
Adjustments for non-recurring items:				
General and administrative expenses	-	274	-	566
RSUs expense reversal	-	-	(363)	-
Adjusted EBITDA	**(713)**	**(1,956)**	**(778)**	**(3,440)**
Corporate G&A expenses after non-recurring items	3,580	2,019	7,721	8,295
Solar segments Adjusted EBITDA	**2,867**	**63**	**6,943**	**4,855**

QUARTERLY SELECTED FINANCIAL INFORMATION

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

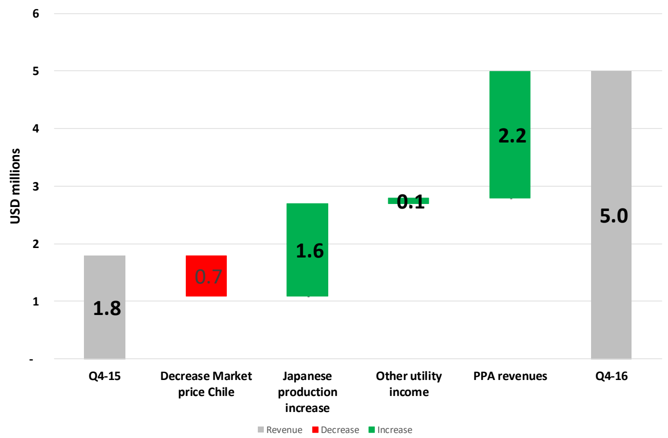
USD thousands (except per share data)	Q4-16	Q3-16	Q2-16	Q1-16	Q4-15	Q3-15	Q2-15	Q1-15
Revenue	4,979	17,224	16,605	9,903	7,088	15,913	17,060	10,387
Net (loss) income	20,981	(88,295)	1,443	(8,547)	(1,808)	(4,389)	(10,057)	(2,483)
Net gain (loss) income attributable to owners of Etrion	30,070	(61,131)	2,438	(7,588)	(1,340)	(3,136)	(9,227)	(1,614)
Basic and diluted earnings (loss) per share	0.090	(0.183)	0.007	(0.023)	(0.004)	(0.009)	(0.028)	(0.005)

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 consolidated financial statements are presented in $, which is the Group's presentation currency. The Company's functional currency is the €. The consolidated financial statements have been prepared in accordance with IFRS.

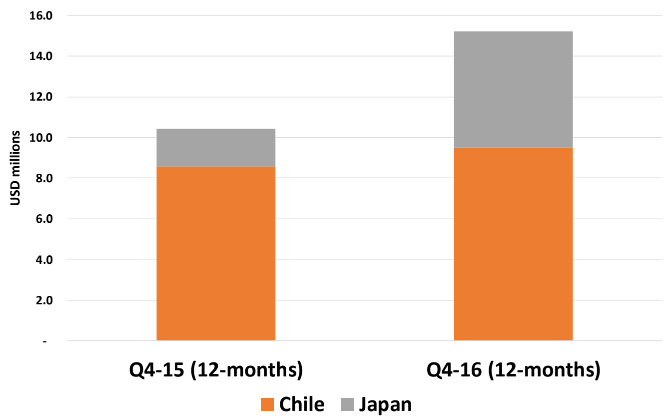
REVENUE

USD thousands	Three months ended Q4-16	Q4-15	Twelve months ended Q4-16	Q4-15
FiT revenue	2,327	760	5,723	1,825
Market Price revenue	243	896	1,686	8,269
PPA revenue	2,152	-	6,904	-
Other utility income	257	134	920	322
Total revenue	**4,979**	**1,790**	**15,233**	**10,416**

Revenues increased significantly by $3.2 million during Q4-16 compared to the same period of 2015, primarily due to an overall production increase in Chile, the performance in Japan and PPA revenues from Project Salvador, partially offset by lower Chilean Market Price. In Q4-16, the Group's revenue from Market Price represented 5% 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 reconciliation of total revenue in Q4-16 versus Q4-15 is as follows:



Revenues increased by $4.8 million (46.2%) during 2016, compared to the same period of 2015 mainly due the additional production and FiT revenues in Japan, partially offset by a decrease in Market Price in Chile.



ADJUSTED CONSOLIDATED EBITDA

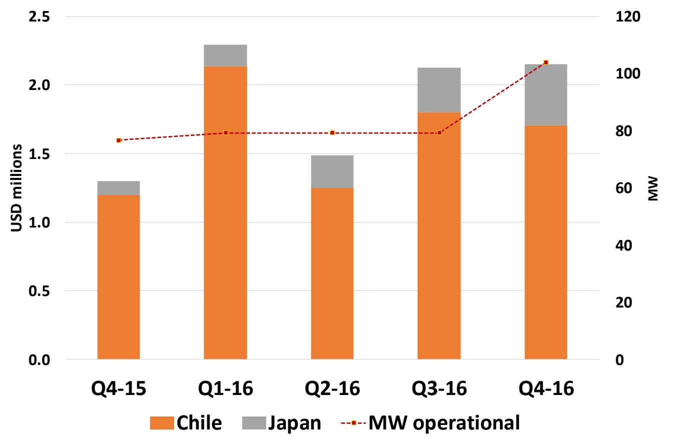
During Q4-16 and 2016 adjusted consolidated EBITDA decreased compared to the same period of 2015, mainly as a result of the negative EBITDA being contributed by the Group's corporate segment

OPERATING EXPENSES

USD thousands	hree months ended Q4-16	Q4-15	Twelve months ended Q4-16	Q4-15
O&M costs	431	581	2,266	2,079
Purchased power	623	-	3,114	-
Personnel costs	280	143	889	497
D&A	2,466	2,775	10,741	9,942
Property tax	58	-	231	-
Insurance	130	123	372	477
Land lease	210	44	353	105
Transmission cost	299	372	554	8,987
Other expenses	121	97	279	262
Total operating expenses	**4,618**	**4,135**	**18,799**	**14,889**

Operating expenses increased by $0.5 million (12%) and $3.9 million (26%) during the three and twelve months ended December 31, 2016, respectively, compared to the same period of 2015, primarily due to purchased power in Chile and the incremental depreciation expense and other operational costs associated with the Shizukuishi project. In order to satisfy the obligations under the terms of the PPA agreement, Salvador purchases and pays the cost of electricity in the withdrawal node at the off-taker. During the three and twelve months ended December 31, 2016, the average Nodal Costs were approximately $0.029 per kWh and $0.046 per kWh, respectively. 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; currently estimated 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

	Three months ended		Twelve months ended	
USD thousands	Q4-16	Q4-15	Q4-16	Q4-15
Salaries and benefits	2,016	670	3,690	3,241
Pension costs	164	170	164	170
Board of directors fees	39	129	151	270
Share-based payments	180	(159)	442	496
Professional fees	615	1,089	1,551	2,838
Listing and marketing	88	78	332	439
D&A	53	75	216	327
Office lease	76	83	384	396
Office, travel and other	679	544	1,176	1,702
Total general and admin	**3,910**	**2,679**	**8,106**	**9,879**

General and administrative expenses increased by $1.2 million (46%) and decreased by $1.7 million (18%) during the three and twelve months ended December 31, 2016, respectively, compared to the same period in 2015, primarily due to an increase in salaries, benefits incentive compensation and as a result of higher costs being capitalized and recharged to the Japanese development pipeline, and a general decrease in professional, listing and board fees, following management measures to optimize costs. In addition, during 2016, the Group recognized a reduction in the stock based compensation expense of $0.4 million as Etrion's management expected that none of the Company's restricted share units (”RSUs”) granted in July 2014 would reach the performance condition targets.

IMPAIRMENT

During 2016, the Company identified indicators of impairment related to Salvador, an entity within its Solar Chile segment. The carrying value of the Salvador solar assets in Chile was compared to the recoverable amount of this cash generating unit based on its value-in-use. The Company completed an impairment assessment based on value-in-use estimates derived from long-range forecasts and market values observed in the marketplace. To determine the value-in-use a before tax discount rate of 8.33% was utilized. As a result of the impairment assessment, the Company determined that the recoverable amount was equal to $98.3 million (before consolidation adjustments) and recorded impairment charges of $70.0 million and $5.7 million against property, plant and equipment and intangible assets, respectively. The impairment resulted from a sharp decline in the outlook for long term power prices in the Chilean market where Salvador is located. Project Salvador was originally financed 30% with equity and 70% with non-recourse loans from the Overseas Private Investment Corporation (“OPIC”). Etrion's share of the total equity contribution amounted to $42.0 The recognition of the $75.7 million impairment expense has been calculated with reference to the unleveraged value of the solar assets of Project Salvador in accordance with IFRS and not with reference to Etrion's net economic interest in its subsidiary. The excess of the impairment charge relative to Etrion's total equity investment in Project Salvador is reflected in the negative equity of the subsidiary that has been fully consolidated at the Group level. However, it does not represent an additional loss on the Group's original investment in Project Salvador.

In addition, during 2016, the Company impaired capitalized development costs of $0.3 million (2015: $2.9 million) associated with development activities for other Chilean projects it is no longer pursuing.

NET FINANCE COSTS

	Three months ended		Twelve months ended	
USD thousands	Q4-16	Q4-15	Q4-16	Q4-15
Interest project loans	3,709	3,567	12,286	12,297
Interest corporate bond	2,086	2,285	8,778	8,901
Fair value movements	(1,613)	72	(1,206)	426
Foreign exchange	779	(1,180)	(4,414)	(4,893)
Other finance costs	40	276	160	(653)
Net finance cost	**5,001**	**5,020**	**15,603**	**16,078**

During the fourth quarter of 2016, net finance costs remained flat compared to 2015 and during the twelve months ended December 31, 2016, net finance costs decreased by $0.5 million (3%) compared to 2015, primarily due to the recognition of income upon release of the carrying value of a written call option associated with Salvador. During Q4-16 and the twelve months ended December 31, 2016, the Group capitalized $0.1 million (2015: $0.1 million) and $0.8 million (2015: $0.9 million) of borrowing costs associated with credit facilities obtained to finance the construction of Shizukuishi and Aomori.

INCOME TAX EXPENSE

	Three months ended		Twelve months ended	
USD thousands	Q4-16	Q4-15	Q4-16	Q4-15
Current income tax expense	(176)	(645)	(1,046)	(964)
Deferred tax recovery	372	4,570	(6,404)	6,734
Net income tax (expense) recovery	**196**	**3,925**	**(7,450)**	**5,770**

Net income tax expense increased significantly by $3.7 million and $13.2 million during the three and twelve months ended December 31, 2016, compared to the same period of 2015, primarily due to the derecognition of net deferred tax assets associated with Salvador, following the negative impact that long-term price projections have caused to future taxable profits for this solar project in Chile.

FINANCIAL POSITION

LIQUIDITY AND FINANCING

CASH POSITION

USD thousands	December 31 2016	December 31 2015
Cash and cash equivalents:		
Unrestricted at parent level	42,286	17,582
Restricted at project level	18,888	34,917
Total cash and cash equivalents	**61,174**	**52,499**

UNRESTRICTED CASH ANALYSIS

The Group's cash and cash equivalents at December 31, 2016, included unrestricted cash of $42.3 million (December 31, 2015: $17.6 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 generate sufficient operating cash flows in 2017 and beyond from its operating solar power projects to meet its obligations and expects to finance the construction and/or acquisition of new projects with a combination of cash and cash equivalents, additional corporate equity, assets sale or debt financing and non-recourse project loans, as required.

RESTRICTED CASH ANALYSIS

USD thousands	December 31 2016	December 31 2015
Italy	-	6,585
Chile	4,122	19,474
Japan	14,765	8,858
Total restricted cash	**18,888**	**34,917**

The Group's cash and cash equivalents at December 31, 2016, 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 December 31, 2016, the Group had working capital of $45.3 million (December 31, 2015: $1.5 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 $46.4 million. (December 31, 2015: $4.7 million).

At December 31, 2016, 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	45,976	2,328	-	-	-	-	48,304
Project loans	25,201	21,444	19,123	19,660	20,494	287,056	392,978
Corporate bond	3,420	3,420	43,185	-	-	-	50,025
O&M contracts	2,406	2,724	2,503	3,273	3,243	45,956	60,105
Operating leases	1,322	1,161	992	992	992	15,052	20,511
Trade payables	10,671	-	-	-	-	-	10,671
Total	**88,996**	**31,077**	**65,803**	**23,925**	**24,729**	**348,064**	**582,594**

All of the 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 2016, the total equity attributable to owners of the Company decreased by $21.8 million from a net asset position of $7.0 million at December 31, 2015, to a net liability position of $14.8 million at December 31, 2016. 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 December 31, 2016, was negatively impacted by the cumulative fair value losses of $12.7 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 December 31, 2016, would have resulted in a net liability position of $2.1 million.

BORROWINGS

Non-recourse project loans

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

USD thousands	MW	Maturity	December 31 2016	December 31 2015
Etrion SpA	54	December 31, 2029	-	222,990
Helios ITA	6	December 31, 2028	-	26,250
Salvador	70	September 1, 2033	148,900	153,231
Shizukuishi	25	December 31, 2034	63,093	19,952
Mito	9	December 31, 2034	22,199	23,578
Aomori	10	December 31,2034	8,477	-
Total	**174**		**242,669**	**446,001**

Japanese projects

During 2016, the Company entered into new senior secured financing agreements, to finance the construction of the Aomori and Komatsu Japanese solar power projects for a total amount of ¥6,564 million ($56.1 million). In addition, Aomori and Komatsu entered into a VAT credit facility agreement of ¥542 million ($4.6 million) in order to finance the associated VAT capital disbursements. These VAT credit facilities have a term of two years and bear a variable interest rate plus a margin.

The non-recourse project loans obtained by the Group's Japanese subsidiaries to finance the construction costs of the Group's Japanese solar power projects, mature between 2034 and 2036 and bear annual interest rates of Tibor plus a margin ranging from 1.1% to 1.4%. The Japanese non-recourse project loans are 90% hedged through interest rate swap contracts during the operational period at an interest rate ranging from 1.72% to 3.13% all-in. At December 31, 2016, 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 December 31, 2016, and December 31, 2015.

During 2016, The Group's Japanese operating subsidiaries drew down a total of ¥5,670 million ($48.4 million) and ¥384 million ($3.3 million) under the senior financing agreements and under the VAT credit facility, respectively (2015: ¥3,929 million ($32.1 million) and ¥301 million ($2.5 million), respectively). At December 31, 2016, the combined undrawn gross amount under these Japanese credit facilities amounted to ¥6,075 million ($51.9 million) (2015: ¥4,724 million ($39.2 million).

Repayment of these credit facilities is secured principally by the proceeds from the sale of electricity under contracts entered into by the Group with the local utilities in Japan and proceeds from the collection of input VAT accumulated for construction costs. Counterparties to the non-recourse project loans do not have unconditional or unilateral discretionary rights to accelerate repayment to earlier dates. The Company's Japanese subsidiaries have provided certain of its assets as collateral to secure its obligations under the financing agreement. The carrying value of Japanese fixed assets pledged as collateral at December 31, 2016, was $101.7 million (2015: $62.8).

The Japanese financing agreement contains customary representations, warranties, covenants and undertakings restricting the borrower in respect of disposals, acquisitions, payments and transfers and incurring indebtedness and granting guarantees and security.

At December 31, 2016 and 2015, the Group was not in breach of any of the imposed operational and financial covenants associated with its Japanese project loans.

Chilean projects

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 and by the PPA. The loan is accounted for using the amortized cost method based on the effective interest rate. At December 31, 2016 and 2015, 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. The fair values are based on cash flows discounted using an average rate of 7.1% (2015: 7.1%) and are within level 2 of the fair value hierarchy.

Salvador's financing agreement contains customary representations, warranties, covenants and undertakings restricting the borrower in respect of disposals, acquisitions, payments and transfers and incurring indebtedness and granting guarantees and security. The Company's subsidiary has provided certain of its assets as collateral to secure its obligations under the financing agreement. The carrying value of Salvador's fixed assets pledged as collateral at December 31, 2016, was $87.9 million (2015: $166.2).

At December 31, 2016 and 2015, the Group was not in breach of any of the imposed operational and financial covenants associated with its Chilean project loans.

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, i.e. around 7% p.a. All defaults resulting from financial covenants and ratios calculations during this period will be waived.

Italian projects

In December 2016, The Group completed the sale transaction of its Italian assets, transferred its obligations under the non-recourse loan agreements and derecognized the carrying value of these liabilities at the disposal date.

Corporate borrowings

At December 31, 2016 the Group had €40 million of corporate bonds outstanding listed on the Oslo Stock Exchange (2015: € 80 million). In December 2016, Etrion completed a bond repurchase transaction where the Company purchased a nominal amount of €40 million of bonds via a buy-back offer for offers up to and including a price of 100% of par value plus accrued unpaid interest.

The bonds were issued by the Company in April 2014 with an annual interest rate of 8.0% and a 5-year maturity. The carrying amount of the corporate bond as at December 31, 2016, including accrued interest net of transaction costs, was $42.1 million (December 31, 2015: $87.1 million). The corporate bond agreement requires the Company to maintain a minimum unrestricted cash balance of €3 million.

At December 31, 2016, and December 31, 2015, 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 December 31, 2016 and December 31, 2015, 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	December 31 2016	December 31 2015
Total borrowings as per IFRS	**284,777**	**533,060**
VAT facilities	(726)	(2,481)
Accrued interest	(1,548)	(2,231)
Transaction costs	4,371	13,180
Adjusted borrowings	**286,874**	**541,528**
Cash and cash equivalents	(61,174)	(52,499)
Adjusted consolidated net debt	**225,700**	**489,029**
Adjusted corporate net debt	**(98)**	**69,514**

The Group's consolidated net debt decreased during 2016, in comparison with December 31, 2015, mainly due to the derecognition of the Italian net debt, the net increase in unrestricted cash following the sale of the Italian assets and the bond repurchase transaction, partially offset with additional funds drawn from the SMTB credit facility to fund the constructions costs of Shizukuishi and Aomori.

OUTSTANDING SHARE DATA

At the date of this MD&A, the Company had 334,094,324 common shares (March 15, 2015: 334,094,324) and options to acquire 3,202,000 common shares of the Company (March 15, 2015: 3,527,000) issued and outstanding. The options expire at various dates between March 19, 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 the 2014 Restricted Share Unit Plan pursuant to which employees, consultants, directors and officers of the Group may be awarded RSUs. The RSUs have a contractual term of 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 March 10, 2017.

OFF-BALANCE SHEET ARRANGEMENTS

The Group had no off-balance sheet arrangements at December 31, 2016, and December 31, 2015.

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 the Japanese backlog until the second half 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 constuction.

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, the sale or partial sale of existing operating assets, particularly in those situations where the company believes arbitrage opportunities exist to sell assets to institutional investors with substantially lower return requirements than the Company's, additional corporate debt or equity financing and non-recourse project loans, as required. Changes in the estimated net equity needs compared to the previously disclosed values is due to changes in the USD versus Japanese yen exchange rate and timing of the investments.

During 2016, general and administrative expenses of $2.5 million (2015: $2.1 million) representing internally-generated costs ($2.0 million) and third-party costs ($0.5 million) were capitalized during the period within intangible assets, as they directly related to the Group's business development activities in Japan.

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 December 31, 2016, the Group had a contractual obligation to acquire construction services in the amount of $48.3 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 consolidated 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.

New standards and amendments adopted by the Group

There are no IFRS or interpretations that have been issued effective for financial years beginning on or after January 1, 2016, that would have a material impact on the Company's consolidated financial statements.

New standards and amendments issued and not yet adopted by the Group

The following new standards and amendments, applicable to the Group, available for application and not yet adopted, are as follows:

IFRS 9, Financial Instruments: This standard addresses the classification, measurement and recognition of financial assets and liabilities, replacing IAS 39 Financial Instruments: Recognition and Measurement. Management expects IFRS 9 to affect the Companies' s hedge accounting processes and controls. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Group is in the process of evaluating the impact of the IFRS 9 on the financial statements and on the internal controls and intends to adopt this standard no later than the accounting period beginning on or after January 1, 2018.

IFRS 15, Revenue from contracts with customers: This standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 Revenue and IAS 11 Construction Contracts and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017 and earlier application is permitted. The Company's revenue generating activities are governed by power purchase agreements with defined standards terms and conditions widely used in the renewable energy industry. The Group continues with the preliminary assessment and full impact of IFRS 15 which are not expected to be material to the Company and intends to adopt this standard no later than the accounting period beginning on or after January 1, 2017.

IFRS 16, Leases: This standard addresses the measurement and recognition of leases which will result in almost all lease contracts being recognized in the balance sheet, as the distinction between operating and finance leases is removed. IFRS 16 is mandatory for financial years commencing on or after January 1, 2019. The Group is in the process of assessing to what extent existing commitments under lease contracts will result in the recognition of an asset and a liability for future payments.

There are no other IFRS or interpretations that are not yet effective and that would be expected to have a material impact on the Group.

The Company's management believes the critical accounting policies outlined below affect the more significant judgments and estimates used in the preparation of the consolidated financial statements.

IMPAIRMENT OF GOODWILL, PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The Group assesses goodwill for impairment on an annual basis and property, plant and equipment and intangible assets when indicators of impairment exist using value-in-use calculations. The value-in-use calculations are based on the forecasted earnings before interest, tax, depreciation and amortization ("EBITDA") over the expected life of the solar power assets, as derived from the financial models developed by the Company's management to value the projects. The assumptions used are consistent with external sources of information and reflect past experience. These financial models include various assumptions such as future market prices for solar energy, the forecasted rate of inflation to estimate future operating costs and operating variables such as irradiation, degradation and transfer losses estimated by the Group's internal engineers based on historical atmospheric conditions in the areas where the projects are located. The value-in-use calculations used to value the Group's solar power projects are complex and include a wide number of operating and financial variables and assumptions that are subject to change as economic and market conditions vary. At December 31, 2016, a total of $76 million impairment expense was provided in relation to the Group's previously recognized property, plant and equipment and intangible assets associated with Project Salvador. The group did not identify indicators of impairment associated with its solar operating projects in Japan.

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

In determining the fair value of the Group's financial instruments, the Company's management uses judgment to select a variety of methods and verifies assumptions that are mainly based on market conditions existing at the balance sheet date. Where possible, the Company's management also obtains fair value measurements from third parties. The fair value of the Group's interest rate swap contracts is calculated as the present value of the estimated future cash flows, using the notional amount to maturity, the observable Tibor forward interest rate curves and an appropriate discount factor. At December 31, 2016, the Group recognized net financial liabilities of $9.5 million (2015: $13.2 million) associated with its derivative financial instruments.

DEFERRED INCOME TAX ASSETS

The Group accounts for differences that arise between the carrying amount of assets and liabilities and their tax bases in accordance with *IAS 12, Income Taxes*, which requires deferred income tax assets only to be recognized to the extent that is probable that future taxable profits will be available against which the temporary differences can be utilized. The Company's management estimates future taxable profits based on the financial models used to value the solar power projects. Any change to the estimates and assumptions used for the key operational and financial variables used within the business models could affect the amount of deferred income tax assets recognized by the Group. At December 31, 2016, the Group recognized $2.8 million (2015: $19.4 million) of net deferred income tax assets.

RELATED PARTIES

For the purposes of preparing the Company's consolidated 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 consolidated financial statements for the year ended December 31, 2016, are summarized below.

RELATED PARTY TRANSACTIONS

Lundin Services BV

The Group receives professional services from Lundin Services BV, a wholly-owned subsidiary of Lundin Petroleum AB. During 2016, the Group incurred general and administrative expenses of $14,000 (2015: $59,000), respectively, from Lundin Services BV and, at December 31, 2016, the Group had $1,000 (December 31, 2015: $2,000) outstanding in relation to these expenses.

Lundin Petroleum AB

The Group receives professional services from Lundin Petroleum AB for market and investor relation activities in Sweden. During 2016, the Group incurred general and administrative expenses of $27,000 (2015: $29,000), respectively, from Lundin Petroleum AB.

Lundin family

Investment companies associated with the Lundin family subscribed for €15 million of the corporate bond issue completed in April 2014. As at December 31, 2016, the total corporate bonds held by the Lundin family amounted to €6.1 million.

During 2016, the Group recognized $0.9 million (2015: $0.9 million) of interest expense and $0.1 million (2015: $43,000) of transaction costs associated with the portion of the corporate bonds held by investment companies associated with the Lundin family.

Lundin SA

On April 1, 2016, The Group entered into a new service agreement with Lundin SA for an annual amount of $0.1 million, 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 2016, the Group recognized $2.0 million (2015: $2.1 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 December 31, 2016, the Group had $0.5 million outstanding to key management personnel (December 31, 2015: $0.1 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 risk 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	December 31 2016	December 31 2015
Derivative financial assets:		
Interest rate swap contracts		
Current portion	-	702
Total derivative financial assets	**-**	**702**
Derivative financial liabilities:		
Interest rate swap contracts		
Current portion	1,167	3,230
Non-current portion	8,347	10,639
Total derivative financial instruments	**9,514**	**13,869**

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 2016, the Group recognized a net fair value loss of $3.1 million (2015: $0.9 million) net of tax within other comprehensive income related to the effective portion of the Group's interest rate swap contracts. The fair market value of the interest rate swap contracts at December 31, 2016, decreased to a liability position of $9.5 million (2015: $13.9 million) due to the disposal of the Italian assets and associated liabilities.

At December 31, 2016, and December 31, 2015 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. 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

Etrion prepares and updates on a quarterly basis forecasts for project level production, revenues and EBITDA information regarding its operational and fully-funded solar parks. The purpose of these forecasts is to provide investors with management's view on the expected performance of the Company's solar assets over the coming fiscal year. Readers are advised to not place undue reliance on this forecasted financial and operational information. Etrion's consolidated project-level forecast for 2017 is in the following ranges:

2017 Guidance USD million otherwise stated	**Low end**	**High end**
Energy generation (MWh)	146,765	154,291
Revenue	17.6	19.4
Project-level EBITDA	9.2	10.2

(1) Forecasts are presented on a net basis (Net to Etrion's interest)

JAPAN

Revenue, project-level EBITDA and production forecast for our Japanese business, incorporated in the above consolidated guidance, are based on Etrion's ownership over the 43 MW operational and under construction Japanese portfolio comprising the Mito, Shizukuishi and Aomori solar parks, located in central and northern Japan, respectively, and are incorporated on a net basis. These projects benefit from 20-year PPAs with the Japanese public utility, Tokyo Electric Power Company and the Tohoku Electric Power utility, in the case of Shizukuishi and Aomori, under which they will receive between ¥36 and ¥40 per kWh produced (approximately between US$0.31 and US$0.34 per kWh). Aomori construction-related work began in October 2016, and the solar project is expected to be fully connected to the grid in the third quarter of 2017. For the purpose of this guidance and in accordance with Etrion's accounting policies, production and associated revenue and EBITDA will be recognized from the date every individual solar site is commissioned and starts generating economic benefits. In Japan, revenues are received in Japanese Yen and are translated using the ¥/$ exchange rate of the corresponding period. Consequently, revenues expressed in $ may fluctuate according to exchange rate variations.

CHILE

Revenue, project-level EBITDA and production forecast for our Chilean asset, incorporated in the above consolidated guidance, are based on Etrion's 70%-owned, 70 MW operational solar park, Project Salvador, located in northern Chile, and are incorporated on a net basis. Electricity production in Chile assumes curtailments of 15% of the total production capacity of the Project Salvador power plant. Revenue has been calculated using the PPA price of US$0.10 per kWh for the first 70 GWh of production and a spot price forecast prepared by independent consultants for the remaining electricity production of Project Salvador. Chilean project-level EBITDA is net of asset management service fees that are recharged to the operating project as part of operational expenses. In Chile, revenues are calculated with reference to the US dollar, which is also the reporting currency of the Group and therefore revenues forecast are not subject to exchange rate fluctuations.

Basis of preparation of the forecasts

The revenue forecasts have been prepared on a basis consistent with the accounting policies that are expected to be used in the Group's consolidated financial statements for the year to be then ended. These policies are consistent with those set out in the accounting policies in the Group's consolidated financial statements for the years ended December 31, 2016 and 2015.

The project-level EBITDA forecasts have been prepared using a non-IFRS widely accepted methodology which consist of earnings before interest, tax, depreciation and amortization and is useful to analyze and compare profitability between companies and industries because it eliminates the effects of financing and certain accounting policy decisions.

Electricity production forecasts have been prepared using the installed production capacity of the solar power plants, the guaranteed availability and irradiation levels based on historical data from the various solar park locations.

Revenue and project-level EBITDA forecasts have been prepared using the project currency and translated, where applicable, to US dollars using as of February 27, 2017 of ¥/US$ 1: 112.

PREVIOUS FORECASTS

On March 15, 2016, Etrion issued a forecast for the fiscal year ending December 31 2016. Actual results in comparison with the guidance are shown in the table below:

Net to Etrion's interest USD million otherwise stated	**Low end guidance**	**Actual results**	**High end guidance**
Energy generation (MWh)	219,349	223,600	230,597
Revenue	50	50	52
Project-level EBITDA	39	38	41

Below is a description of the major variables that affected the 2016 revenue and EBITDA forecasts:

Japanese revenue and EBITDA in 2016 were lower in comparison with the values included in the guidance provided on March 15, 2016, mainly due to the three months delay in start recognizing revenues from the Shizukuishi solar project, which represented more than 30% of the guidance and was not compensated with the over performance of the Mito project. The overall decrease in revenue and EBITDA was partially offset by the approximately 11% depreciation of the ¥ in respect of the average exchange rate used for the preparation of the guidance.

The revenue and EBITDA in 2016 for Project Salvador were lower than originally expected given the unusual low spot market prices in the SIC network in Chile, due to a combination of local grid congestion, increasing solar and wind electricity generation, strong hydro electricity production due to wet winter conditions and low electricity demand because of depressed mining activity as a result of the collapse in commodity prices. In addition, higher than expected nodal costs also affected the EBITDA contribution from Project Salvador.

Italian revenue and EBITDA in 2016 were lower in comparison with the values included in the guidance provided on March 15, 2016, mainly due to the disposal of the Italian assets in December 2016. According to the Group's accounting policies, subsidiaries are deconsolidated from the date that control ceases and related revenues and expensed are recognized until the date of disposal.

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 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; 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; uncertainties with respect to certain information relating to solar electricity revenue that is subject to confirmation of both the applicable FiT to which the Company is entitled by the state-owned company, GSE, and the applicable spot market price by local utilities for electricity sales to the national grid; 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. 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** or by visiting the Company's website at **www.etrion.com**.