



Q2

ETRION CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
THREE AND SIX MONTHS ENDED JUNE 30, 2016

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



Etrion is a global solar platform with a proven track record operating assets across three key regions in Asia, Europe and the Americas. The Company has gross installed solar capacity of 139 MW plus 34 MW under construction, 66 MW of backlog projects and approximately 300 MW of additional pipeline.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") for Etrion Corporation ("Etrion" or the "Company" and, together with its subsidiaries, the "Group") is intended to provide an overview of the Group's operations, financial performance and current and future business opportunities. This MD&A, prepared as of August 10, 2016, should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and accompanying notes for the three and six months ended June 30, 2016. Financial information is reported in United States dollars (" \$" or "USD"). However, as the Group operates in Europe, the Americas and Asia, certain financial information has also been reported in Euros ("€"), Canadian dollars ("CAD\$") and Japanese yen ("¥"). Exchange rates for the relevant currencies of the Group with respect to the US dollar and the Euro are as follows:

	€/¥	\$/¥	€/£
Closing rate at June 30, 2016	114.16	102.70	1.1102
Closing rate at June 30, 2015	136.54	122.25	1.1189
Six months average rate June 30, 2016	124.58	111.78	1.1155
Six months average rate June 30, 2015	134.17	120.21	1.1159

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", 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 14). EBITDA, including project-level 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 14). 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 23.

SECOND QUARTER 2016 HIGHLIGHTS

OPERATIONAL HIGHLIGHTS

- Produced 35.4 million kilowatt-hours ("kWh") of electricity from the Company's 100%-owned 60 MW portfolio comprising 17 solar power plants in Italy.
- Produced 26.1 million kWh of electricity from the Company's 70%-owned 70 MW Salvador solar power plant in Chile ("Project Salvador").
- Produced 3.4 million kWh of electricity from the Company's 87%-owned 9.3 MW Mito project, comprising 5 solar power plants in Japan.
- The Company is advancing on the construction of the 24.7 MW Shizukuishi project in northern Japan. The project is on budget and on schedule, with estimated connection to the electricity grid in the third quarter of 2016.
- Advanced the backlog of two projects in Japan with a total capacity of 66 MW. Management expects to reach financial close for these backlog projects within the next - 6-9 months. The Company is advancing the development of additional projects in Japan with a combined capacity of 190 MW.

FINANCIAL HIGHLIGHTS

- Generated revenues and project-level EBITDA of \$16.6 million and \$14.2 million, respectively, from the Company's 23 solar power plants in Italy, Chile and Japan.
- Closed Q2-16 with a cash balance of \$66.6 million, \$9.6 million of which was unrestricted and held at the parent level, and working capital of \$37.5 million.
- Completed the debt restructuring of the Italian subsidiary Helios ITA, SpA ("Helios ITA"). The Helios ITA restructuring completes the management initiative to renegotiate the non-recourse project loans of its entire portfolio of solar assets in Italy. The Helios ITA restructuring included the extension of the final maturity, optimization of the debt repayment schedule and improvements to cash distributions going forward.
- Reached financial close for a new solar project in Japan, securing an approximately \$29 million non-recourse facility with Sumitomo Mitsui Trust Bank ("SuMi Trust") to finance the construction of the 9.5 MW Aomori project.

USD thousands (unless otherwise stated)	Three months ended		Six months ended	
	Q2-16	Q2-15	Q2-16	Q2-15
Electricity production (MWh)¹	64,912	72,501	130,048	131,028
Italy	35,392	36,759	51,796	53,725
Chile	26,115	35,111	72,095	76,672
Japan	3,405	631	6,157	631
Financial results				
Revenues	16,605	17,060	26,508	27,447
Gross profit	8,334	8,475	8,563	10,854
EBITDA	12,839	9,237	17,284	14,741
Adjusted EBITDA	12,285	11,705	16,730	17,209
Adjusted EBITDA margin (%)	74%	69%	63%	63%
Net income (loss)	1,443	(10,057)	(7,104)	(12,540)
Adjusted net income (loss)	7,269	(1,386)	5,860	2,004
Cash flow				
Project cash distributions	4,119	1,982	4,119	3,371
Cash flow from (used in) operations	5,020	(2,534)	9,318	(10,609)
Adjusted operating cash flow	12,437	11,762	16,983	17,357
			June 30	December 31
			2016	2015
Balance sheet				
Total assets			659,409	613,320
Operational assets			461,939	457,745
Unrestricted cash at parent level			9,573	17,582
Restricted cash at project level			56,993	34,917
Working capital			37,542	1,459
Consolidated net debt on a cash basis			523,511	489,029
Corporate net debt on a cash basis			79,327	69,514

¹ MWH=Megawatt-hour

BUSINESS REVIEW

BUSINESS OVERVIEW

Etrion is an independent power producer that develops, builds, owns and operates utility-scale power generation plants. The Company owns 139 MW of gross installed solar capacity in Italy, Chile and Japan. Etrion has 34 MW of gross solar projects under construction in Japan and several projects at different stages of development in this Asian country.

With projects in Italy, Chile and Japan, Etrion has a diversified solar power generation platform in terms of both revenues and geography. Revenues are generated from Feed-in-Tariff (“FiT”) contracts, long-term PPAs and the spot/merchant market. Etrion’s geographic footprint covers Europe, the Americas and Asia with counter-seasonal revenues expected from the northern/southern hemisphere profile. Etrion’s current strategy is to focus exclusively to continuing to develop and operate solar power projects in Japan.

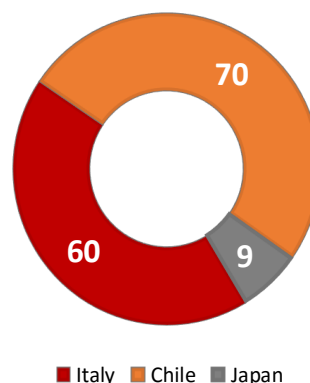
The Company’s business model focuses on six key drivers for success:

- (1) stable revenues;
- (2) abundant renewable resources;
- (3) high wholesale electricity prices;
- (4) low equipment cost and operating expenses;
- (5) available long-term financing; and
- (6) low cost of debt.

The Company is listed on the Toronto Stock Exchange in Canada and the NASDAQ OMX Stockholm exchange in Sweden. Etrion has corporate bonds listed on the Oslo Stock Exchange in Norway. Etrion is based in Miami, Florida, United States with offices in Geneva, Switzerland, Rovereto, Italy, Tokyo, Japan and Santiago, Chile. As of the date of this MD&A, the Company has a total of 32 employees working throughout these five jurisdictions.

Etrion’s current operating projects in Italy, Chile and Japan provide a diversified platform of revenues, all originated from member countries of The Organization for Economic Co-operation and Development (“OECD”).

GROSS INSTALLED MW BY COUNTRY



OPERATIONS REVIEW

OPERATIONS REVIEW – THREE MONTHS ENDED JUNE 30

USD thousands (unless otherwise stated)	Q2-16				Q2-15			
	Italy	Chile	Japan	Total	Italy	Chile	Japan	Total
Operational data ⁽¹⁾								
Electricity production (MWh)	35,392	26,115	3,405	64,912	36,759	35,111	631	72,501
Operational performance ⁽¹⁾								
Electricity revenue								
Feed-in-Tariff	12,095	-	1,258	13,353	12,465	-	210	12,675
Market price	1,369	333	-	1,702	1,535	2,850	-	4,385
PPAs	-	1,298	-	1,298	-	-	-	-
Other utility income	-	252	-	252	-	-	-	-
Total revenues	13,464	1,883	1,258	16,605	14,000	2,850	210	17,060
EBITDA ⁽²⁾	12,684	563	970	14,217	12,298	1,490	126	13,914
EBITDA margin (%)	94%	30%	77%	86%	88%	52%	60%	82%
Net income (loss)	4,313	(3,422)	260	1,151	2,965	(3,593)	69	(559)

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

(2) Refers to project-level EBITDA as reconciled in the segment information section on page 13

OPERATING PERFORMANCE

Power Production

During Q2-16, the Group produced 10.5% less electricity compared to the same period in 2015, due primarily to a decrease in electricity production in Chile and Italy partially offset by the increase in Japan.

Italian projects

During Q2-16, the Italian solar projects produced approximately 35.4 million kWh of electricity, 3.7% less than the comparable period in 2015, mainly due to lower than expected solar irradiation.

Chilean project

Project Salvador's production of approximately 26.1 million kWh of electricity during Q2-16 was 26% lower than the comparable period in 2015. 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 Q2-16, approximately 13.2 million kWh were sold to EE-ERNC-1, an investment grade off-taker, 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).

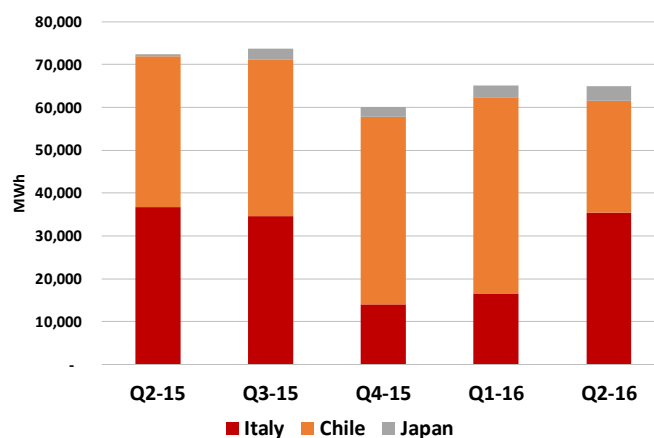
Japanese project

The Mito Project in Japan produced a total of approximately 3.4 million kWh of electricity during Q2-16, 10% above forecast due to high irradiation and a high performance ratio. The electricity production in Q2-16 is not fully comparable with the same period in Q2-15 because only three out of five sites were connected at the end of that period in 2015.

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 300 million kWh on an annual basis.



Electricity prices

The Group receives revenues denominated in Euros, 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 Italian state-owned company, Gestore Servizi Energetici ("GSE") or the Japanese public utility, Tokyo Electric Power Company ("TEPCO"), as applicable, (2) the spot market price ("Market Price") received for each kWh of electricity produced in Chile and Italy, and (3) contracted PPAs within Chile, whereby a fixed price is received for each kWh of electricity sold under private electricity sale agreements.

Italian projects

During Q2-16 and Q2-15, the Group realized the weighted average FiT price of €0.30 per kWh applicable to all its solar projects in Italy. The average Italian Market Price decreased by approximately 2% as the Group received an average of €0.039 per kWh in Q2-16 compared to €0.040 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).

Chilean project

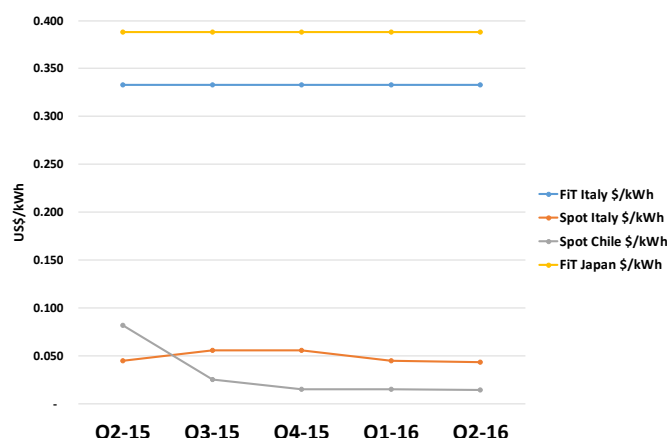
In Chile, the average Market Price received by the Group during Q2-16 for Project Salvador was \$0.013 per kWh, approximately 84% lower than the same period in 2015. The Market Price in the Sistema Interconectado Central ("SIC") electricity network in Chile was particularly low during Q2-16 due to a combination of local grid congestion, increasing solar and wind electricity generation, strong hydro electricity production due to wet winter conditions, aggravated by "el Nino", and lower electricity demand because of reduced mining activity as a result of the continued low commodity prices.

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 months ended June 30, 2016, the average Nodal Costs were approximately \$0.055 per kWh.

Japanese project

In Japan, during Q2-16 the Group received the FiT of ¥40 per kWh applicable to the five sites of the Mito cluster operational since August 2015.

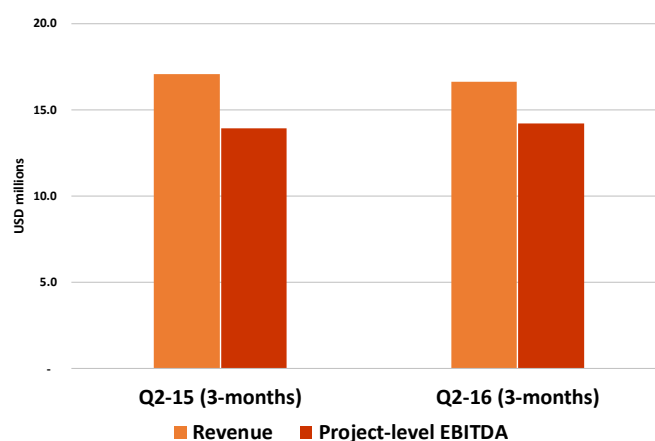
The chart below shows the evolution of average electricity prices, expressed in \$/kWh (calculated with exchange rates as of June 30, 2016), applicable to the solar power plants operated by the Group during the last five quarters:



Revenue and project-level EBITDA

During Q2-16 the Group's revenue decreased 2.7% compared to the same period in 2015, primarily due to lower Market Price affecting part of the electricity produced in Italy and Chile and also due to lower electricity production affected by curtailments and lower than expected irradiation.

During Q2-16 the Group's project-level EBITDA increased 2.2% compared to the same period in 2015, primarily due to additional production in Japan and management's continued efforts to reduce operating cost and streamline the operations in Italy and Chile, partially offset by higher than expected Nodal Costs that impacted EBITDA contributed by Project Salvador.



Revenues from Italy and Japan are received in Euros and in Japanese yen, respectively, and have been translated to the Group's functional (€) and presentation (\$) currencies using the corresponding Q2-16 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 – SIX MONTHS ENDED JUNE 30

USD thousands (unless otherwise stated)	Q2-16				Q2-15			
	Italy	Chile	Japan	Total	Italy	Chile	Japan	Total
Operational data ⁽¹⁾								
Electricity production (MWh)	51,796	72,095	6,157	130,048	53,725	76,672	631	131,028
Operational performance ⁽¹⁾								
Electricity revenue								
Feed-in-Tariff	17,589	-	2,216	19,805	18,269	-	210	18,479
Market price	2,016	1,025	-	3,041	2,494	6,474	-	8,968
PPAs	-	3,267	-	3,267	-	-	-	-
Other utility income	-	395	-	395	-	-	-	-
Total revenues	19,605	4,687	2,216	26,508	20,763	6,474	210	27,447
EBITDA ⁽²⁾	17,180	1,197	1,738	20,115	17,141	4,171	108	21,420
EBITDA margin (%)	88%	26%	78%	76%	83%	64%	51%	78%
Net income (loss)	2,595	(6,689)	398	(3,696)	275	(5,689)	52	(5,362)

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

(2) Refers to project-level EBITDA as reconciled in the segment information section on page 13

OPERATING PERFORMANCE

Power Production and Electricity Prices

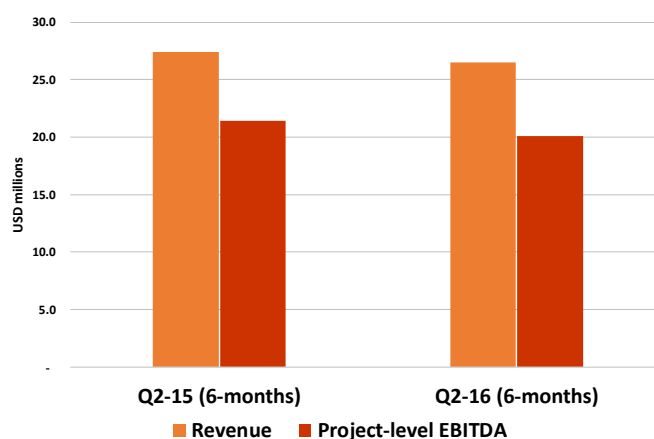
During the first half of 2016, the Group produced 0.7% less electricity compared to the same period of 2015, due primarily to a decrease in electricity production in Chile and Italy largely offset by the increase in Japan.

During the first half of 2016, the Group realized the weighted average FiT price of €0.30 per kWh applicable to all its solar projects in Italy. The average Italian Market Price decreased by approximately 17% as the Group received an average of €0.035 per kWh in the first half of 2016 compared to €0.042 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).

In Chile, the average Market Price received by the Group in the first half of 2016 for Project Salvador was \$0.014 per kWh, approximately 83% lower than the same period in 2015. In Japan, the Group received the FiT of ¥40 per kWh applicable to the five sites of the Mito cluster operational since August 2015.

Revenue and project-level EBITDA

During the first half of 2016, the Group's revenue and project-level EBITDA decreased 3% and 6%, respectively, compared to the same period in 2015, primarily due to lower Market Price affecting part of the electricity produced in Italy and Chile and also due to lower electricity production affected by curtailments and lower than expected irradiation, partially offset by additional production in Japan and management's continued efforts to reduce operating cost and streamline the operations in Italy and Chile.



OPERATING PROJECTS - ITALY

As of the date of this MD&A, the weighted average remaining contract life of the Italian operating projects is approximately 14 years. A summary of the Group's 100%-owned operating solar power projects in Italy is below:



Project	Region	Sites	Gross MW	Technology	Connection date
Cassiopea	Lazio	1	24.0	Single axis	Nov-09
Helios ITA-3	Puglia	2	10.0	Single axis	Aug-11
Centauro	Lazio	1	8.8	Single axis	Jul-10
Helios ITA	Puglia	7	6.4	Single axis	Dec-09
Etrion Lazio	Lazio	2	5.3	Fixed-tilt	Apr-11
SVE	Puglia	3	3.0	Single axis	Dec-10
Sagittario	Lazio	1	2.6	Fixed-tilt	Aug-11
Total		17	60.1		

Etrion's solar power plants in Italy are capable of producing more than 100 million kWh of electricity on an annual basis.

OPERATING PROJECTS - 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.

OPERATING PROJECTS - JAPAN

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		

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

DEVELOPMENT ACTIVITIES

PROJECTS UNDER CONSTRUCTION - JAPAN

Etrion is actively pursuing renewable energy projects in Japan, due to the attractive solar FiT program and low financing costs. Japan is one of the largest solar PV markets in the world with over 37 gigawatts ("GW") of installed capacity by the end of 2015 that is expected to reach 51 GW by the end of 2016.² Etrion is currently allocating most of its resources and management to further develop this market.

A summary of the Group's projects under construction in Japan is below:

Shizukuishi



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

Shizukuishi is a 24.7 MW utility-scale solar photovoltaic power plant under construction on one site in the Iwate Prefecture of Japan. Construction-related work began in October 2014, and the solar project is expected to connect to the grid in the third quarter of 2016. The solar power plant is being built on 51 hectares of leased land, and the facility will connect through Tohoku Electric Power Co., Inc. ("Tohoku Electric Power utility"). The project has entered into a 20-year PPA with the Tohoku Electric Power utility to receive ¥40 per kWh produced (approximately \$0.33 per kWh). The total project cost of approximately ¥8.9 billion (approximately \$87.8 million) is being financed 80% with non-recourse project debt from Sumitomo Mitsui Trust Bank, Limited ("SMTB") with the remaining approximately 20% equity portion already funded by the Group and Hitachi High-Tech ("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. Once operational, Shizukuishi is expected to produce approximately 25.6 million kWh of solar electricity per year. Etrion charged the Shizukuishi project with a net development fee of approximately ¥677.4 million (\$6.7 million).

² Bloomberg New Energy Finance

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 solar project is expected to be fully operational by the third quarter of 2017. The solar power plants are being built on 164 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 \$0.35 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 HHT. Once operational, Aomori is expected to produce approximately 10.7 million kWh of solar electricity per year. Etrion expects to charge the Aomori project with a net development fee of approximately ¥177 million (\$1.7 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 two most advanced projects totaling 66 MW, listed in the table below as backlog, are expected to be shovel-ready within the next twelve months. 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
Komatsu	Central	1	13	Fixed-tilt
Kumamoto	South	1	53	Fixed-tilt
Total backlog		2	66	
Brownfield 1	Central	1	55	Fixed-tilt
Brownfield 2	Central	1	35	Fixed-tilt
Greenfield 1	Central	1	40	Fixed-tilt
Other early stage			60	Fixed-tilt
Total early stage			190	
Total pipeline			256	

Japanese backlog

Komatsu is a 13 MW solar project in central Japan with the FIT secured. The land concession has been pre-assigned and the final decree is expected in six months. The project is expected to reach financial close by the end of 2016.

Kumamoto is a 53 MW solar project in southern Japan with the FIT secured and the land contract signed. Etrion has secured exclusivity with the developer and the grid impact studies are complete. The project is expected to be shovel-ready by the first half of 2017.

The two projects described above are in advanced development stages and while the Company believes they have a high degree of probability to reach shovel-ready status, they may be replaced by other projects within the next 12 months in order to accelerate construction or improve project economics.

The estimated total project costs associated with the development and construction of the backlog projects, including costs related to the licenses, permits, financing and construction are summarized in the table below. As of June 30, 2016, the Company has incurred approximately \$1.3 million of project and development costs that will be fully credited from the total net to Etrion equity contribution shown in last column of the table below, upon financial close. 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.

Project	Project Costs	Gross Debt	Net Equity Contribution	Net to Etrion
Komatsu	41.9	33.7	5.3	4.3
Kumamoto	203.8	167.0	21.6	18.3
Total USD million	245.7	200.7	26.9	22.6

Changes in the estimated total projects costs, gross debt and net equity contribution, compared to the previously disclosed values is due to changes in the USD versus Japanese yen exchange rate. Etrion also expects to charge these projects with development fees that effectively reduce the Company's net equity contribution, as per above.

The equity needed to build these projects is likely to be contributed throughout the construction period, typically expended over a two year construction period, rather than at the start of construction, as was the case on our initial two projects in Japan.

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 the permitting process and PPA negotiations with the utility. The project is expected to be shovel-ready by the first half of 2018.

Japan Brownfield Project 2 is a 35 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 is expected to be filed during the second quarter of 2016. 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

Etrion's growth prospects in Chile have been adversely impacted by the decrease in electricity demand as a result of reduced investments in the mining sector and the accelerated growth in electricity supply from renewable sources. As a result of these externalities, spot prices in Chile as well as the demand for long-term power contracts from industrial clients have significantly declined. The Company currently has 72 MW of shovel-ready projects but has postponed its plans to build until long-term PPAs are available. Allocated resources in Chile to seek for PPAs have been reduced significantly. However, the Company will continue to monitor developments in the Chilean electricity market and can restart efforts if conditions improve to secure long-term PPAs on attractive terms.

During the second quarter of 2016, an impairment charge of \$0.3 million was recognized for the total costs capitalized as internally generated intangible assets associated with the development pipeline in Chile. The Company will continue to monitor developments in the Chilean electricity market and proceed with the remaining projects when long-term PPAs are secured.

A summary of the Group's 100%-owned projects under development in Chile is below:

Project	Region	Sites	Gross MW	Technology
Aguas Blancas 2A	Antofagasta	1	32	Single axis
Aguas Blancas 2B	Antofagasta	1	24	Single axis
Aguas Blancas 2C	Antofagasta	1	16	Single axis
Total		3	72	

Aguas Blancas

The Aguas Blancas solar projects in the Antofagasta region of Chile include three sites, 2A, 2B and 2C, with a total capacity of 72 MW in the Sistema Interconectado del Norte Grande ("SING") electricity network.

Aguas Blancas 2A is a shovel-ready 32 MW site. The land concession has been assigned, and the final decree is expected in six months. The environmental permit has been received, the mining rights have been secured and the interconnection contract has been agreed.

Aguas Blancas 2B is a shovel-ready 24 MW site. The land concession decree has been signed, the environmental permit has been received and the mining rights have been secured.

Aguas Blancas 2C is a shovel-ready 16 MW site. The land concession has been signed, the environmental permit has been received, the mining rights have been secured and the interconnection contract has been agreed.

Etrion should be in a position to start construction of the Aguas Blancas projects if and when the Company secures PPAs and long-term, non-recourse project finance. The projects are expected to be operational within nine months from the date construction commences.

During the second quarter of 2016, the Group decided to not continue to pursue the previously disclosed Las Luces solar project in the Atacama region with a total capacity of 27 MW in the SIC electricity network.

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 (e.g., Chile). 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.

ITALIAN MARKET

FiT system

In 2005, the Italian government introduced a FiT system in order to encourage expansion of solar energy. The FiT system, combined with strong solar irradiation and high spot electricity prices, led to significant growth in the installed capacity of solar generating facilities. The Italian state-owned company, GSE, is responsible for managing the incentive program. However, the actual cost of the incentive is paid by the ultimate consumer through a small tax on utility bills.

The Italian FiT entails a 20-year commitment from the government to purchase 100% of solar electricity production at a premium constant rate based on the connection date. Since 2005, the Italian FiT for new projects has been revised to account for the decreasing cost of building solar power plants.

On June 24, 2014, the Italian government published a new decree outlining, among other things, certain proposed changes to the current Italian FiT regime. On August 7, 2014, the decree was approved by the Italian Parliament. The approved changes impacted the revenues received by solar power producers by reducing the annual FiT incentive paid by the GSE. Specifically, the approved decree outlined three options for solar power producers to reduce the original FiT effective January 1, 2015.

Producers could choose a reduction of between 17% and 25%, depending on the remaining incentive period, offset by an extension of the incentive period from 20 to 24 years. Alternatively, solar power producers could elect a flat 6%-8% reduction, depending on the capacity of the plant, for the remaining incentive period without an extension. Lastly, producers could choose to have the FiT reduced by approximately 15% in the near-term and increased by an equivalent amount in the long-term using a re-modulation ratio established by the Italian Ministry for Economic Development.

In addition, the approved decree introduced certain changes to the payment of the FiT, whereby, effective July 1, 2014, 10% of the FiT payment by GSE would be delayed until June of the following year. However, the GSE subsequently indicated that their systems were not ready to support the new decree and that they would activate the new payment mechanism starting January 1, 2015.

Etrion's management believe the new decree is discriminatory and violates the rights of solar plant owners and foreign investors. The Company's Italian operating subsidiaries filed on February 17, 2015 a domestic legal action in the Italian courts to seek a declaration that the new decree is unconstitutional (similar to the Robin Hood tax described below) or alternatively to obtain compensation for damages resulting from the changes to the FiT regime. The Italian Constitutional Court has scheduled a hearing for December, 2016 to review the claims

filed by some other solar producers and is expected to publish its resolution of the dispute within six months after the hearing.

Since Etrion's management considers the new decree unconstitutional, the Company did not communicate any election to the Italian government by the November 30, 2014, deadline. According to the new decree, in the absence of a formal election by solar plant owners, the 6-8% flat reduction is applicable as of January 1, 2015. A summary of the revised FiT received by the Group for its ground-mounted solar PV power projects connected in 2009, 2010 and 2011, is as follows:

	2011	2010	2009
Original FiT (€/kWh)	€0.250	€0.346	€0.353
Revised FiT (€/kWh)	€0.230	€0.318	€0.325
Remaining life	15.3 years	14.3 years	13.3 years

In addition to the FiT, solar power generators in Italy receive the spot market rate for each kWh produced. The average Market Price during Q2-16, was approximately €0.039 (\$0.043) per kWh.

Robin Hood tax

On February 11, 2015, the Italian Constitutional Court published a ruling that declared the so-called "Robin Hood" tax unconstitutional and eliminated it from February 2015 onwards. The removal of the Robin Hood tax reduced the ordinary income tax rate applicable to most energy companies in Italy from 34% to 27.5%. The Robin Hood tax was a surtax introduced in 2008 that increased the overall corporate income tax rate applicable to large Italian energy companies from 27.5% to 38%. Operators contested the Robin Hood tax as unconstitutional due to the higher overall tax rate being applied to energy companies compared to the ordinary tax rate for Italian companies in general.

In December 31, 2015, the Italian parliament announced a further reduction of the ordinary income tax from 27.5% to 24% effective from January 1, 2017.

CHILEAN MARKET

Chile's energy demand had been growing rapidly since 1990 due to increased power consumption by the mining sector, the country's single largest industry, and large urban areas such as the capital city, Santiago. The increased demand combined with scarce fossil fuel and hydro resources made the country a net importer of energy. The energy sector is largely liberalized and privatized, which enables energy producers to enter into US dollar-denominated bilateral agreements directly with industrial clients.

Due to the size of Chile's economy and its well-established capital markets, manufacturers and finance providers are available to support the growing demands for energy consumption. Today, hydro and thermoelectric power are Chile's primary source of renewable energy. Despite the current drop in energy prices and reduced investments in the mining sector, the market fundamentals in the medium to long-term remain attractive for solar due to its anticipated continued cost reduction trajectory. 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. In September 2013, the Chilean government passed the so-called "20/25" law,

requiring 20% of electricity to be generated from renewable sources by 2025 (an increase from the previous “clean energy” law requiring 10% of electricity to be generated from renewable sources by 2024) demonstrating strong support for the development and use of renewable energy sources.

There are two ways in which a solar producer like Etrion can operate in Chile:

- **Through PPAs** – solar power producers can sell the electricity produced through a long-term fixed-price take-or-pay US dollar-denominated contract with industrial users (such as mining companies) or distribution companies (addressing the regulated market).
- **On a spot market/merchant basis** – solar power producers can sell the electricity produced on the spot market, delivered to the relevant electricity network. Project Salvador is initially operating on a merchant basis.

Chile’s electricity network is divided into four independent non-connected networks:

- **SING** – Sistema Interconectado del Norte Grande (“SING”), the northern grid, accounts for approximately 25% of total electricity production in Chile. The SING is primarily served by thermoelectric plants.
- **SIC** – Sistema Interconectado Central (“SIC”), the central grid, accounts for approximately 74% of total electricity production in Chile and serves approximately 90% of its population. The SIC is primarily served by hydroelectric plants, in addition to diesel and thermoelectric plants. Project Salvador is located in the SIC.
- **Aysen** – Located in southern Chile, this mainly hydro network accounts for approximately 0.2% of total electricity production in Chile.
- **Magallanes** – Located in the most southern part of Chile, this hydro network accounts for approximately 0.4% of total electricity production in Chile.

Works has commenced to interconnect the SIC and SING networks by 2017, which is expected to result in a more stable long-term spot market price for the combined networks. Together, the SIC and SING account for more than 99% of Chile’s total electricity production.

The Company has significantly reduced its commercial activities in Chile to secure new PPAs given current market conditions. Management believes that until the SIC-SING networks are interconnected and bottlenecks removed, expected by 2018, with recovery of the mining sector, market conditions will remain poor. Management will continue monitor the situation and if conditions change the company will reevaluate whether to restart commercial activities.

During Q2-16, weighted average market prices in the SIC network at the Diego de Almagro node applicable to Project Salvador were particularly volatile in the range of \$22-\$45 per MWh. The weighted average market price in the last 12 months was approximately \$25 per MWh. The recent spot market volatility is mainly due to a reduction in energy demand as a result of the collapse in commodity prices, a delay in mine

expansions, the significant increase in installed solar and wind power generation compared to forecasts and the effect of the reduction in oil and gas and coal prices. Spot market electricity prices are expected to remain volatile until the SIC electricity grid near Project Salvador is expanded and the SIC-SING are interconnected, both works expected to be completed in 2018.

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 2015, Japan had installed more than 37.7 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.

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.

OTHER MARKETS

Etrion has effectively established its presence in three key regional markets (Asia, Europe and the Americas). The Company continues to see significant upside potential in Japan and hence is devoting most of its resources to expand in this market.

FINANCIAL REVIEW

FINANCIAL RESULTS

SECOND QUARTER SELECTED FINANCIAL INFORMATION

During Q2-16 and the six months ended June 30, 2016, the Group's performance and results were positively impacted by the incremental production of electricity in Japan. However, consolidated revenue, gross profit and EBITDA were negatively impacted by lower than expected Market Price and electricity production in Italy and Chile and also due to higher than expected Nodal Costs from Project Salvador. Selected consolidated financial information, prepared in accordance with IFRS, is as follows:

USD thousands (except per share data)	Three months ended		Six months ended	
	Q2-16	Q2-15	Q2-16	Q2-15
Revenue	16,605	17,060	26,508	27,447
Gross profit	8,334	8,475	8,563	10,854
Net income (loss)	1,443	(10,057)	(7,104)	(12,540)
Net income (loss) attributable to owners of the Company	2,438	(9,227)	(5,150)	(10,841)
Basic earnings (loss) per share	\$0.007	\$(0.028)	\$(0.015)	\$(0.032)
Diluted earnings (loss) per share	\$0.007	\$(0.028)	\$(0.015)	\$(0.032)
Adjustments to net loss for:				
Net income tax expense	2,265	1,451	1,038	1,260
Depreciation and amortization	6,168	5,800	12,233	11,372
Impairment	278	2,468	278	2,468
Share-based payment expense	(167)	223	76	447
Net finance costs	2,773	11,878	10,813	14,328
Other income	(323)	(1)	(351)	22
Income tax paid	(880)	(339)	(880)	(673)
Changes in working capital	(6,537)	(13,957)	(6,785)	(27,293)
Operating cash flow	5,020	(2,534)	9,318	(10,609)

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

USD thousands	June 30 2016	December 31 2015
Non-current assets	567,373	531,377
Current assets	92,036	81,943
Total assets	659,409	613,320
Non-current liabilities	618,529	526,432
Current liabilities	54,494	80,484
Total liabilities	673,023	606,916
Net (liabilities) assets	(13,614)	6,404
Working capital	37,542	1,459
Dividends declared	-	-

SEGMENT INFORMATION THREE MONTHS ENDED JUNE 30

Segment consolidated financial information for the three months ended June 30, prepared in accordance with IFRS, is as follows:

	Q2-16			Q2-15		
	Renewable	Corporate	Total	Renewable	Corporate	Total
USD thousands						
Revenue	16,605	-	16,605	17,060	-	17,060
Operating expenses	(2,157)	-	(2,157)	(2,872)	-	(2,872)
General and administrative expenses	(550)	(1,104)	(1,654)	(336)	(2,186)	(2,522)
Other income (expenses)	319	4	323	62	(23)	39
Impairment	-	(278)	(278)	-	(2,468)	(2,468)
EBITDA	14,217	(1,378)	12,839	13,914	(4,677)	9,237
Depreciation and amortization	(6,114)	(54)	(6,168)	(5,713)	(87)	(5,800)
Finance income	443	5,152	5,595	(34)	49	15
Finance costs	(6,575)	(1,983)	(8,558)	(7,332)	(4,726)	(12,058)
Income (loss) before income tax	1,971	1,737	3,708	835	(9,441)	(8,606)
Income tax recovery (expense)	(820)	(1,445)	(2,265)	(1,394)	(57)	(1,451)
Net income (loss) for the period	1,151	292	1,443	(559)	(9,498)	(10,057)

During Q2-16, the Group's renewable energy segment generated revenues of \$16.6 million and EBITDA of \$14.2 million, which represented a decrease of 2.7% and an increase of 2.2%, respectively, in comparison with the same period in 2015. In addition, the Group's renewable energy segment generated a net income of \$1.2 million, a net result significantly better in comparison with the net loss result for the same period in 2015. The main reasons for the net income in the renewable segment were the reduction of operating expenses and finance costs, following management strategies to reduce the cost of operations and cost of long-term financing. However, lower than expected Market Price and electricity production in Italy and Chile affected revenue and EBITDA generated in those countries, partially offset by the positive performance in Japan. The Group's corporate segment generated negative EBITDA of \$1.4 million, due to corporate general and administrative expenses and, net income of \$0.3 million driven by finance costs associated with the Company's corporate bond, fully offset with foreign exchange gains.

SEGMENT INFORMATION SIX MONTHS ENDED JUNE 30

	Q2-16			Q2-15		
	Renewable	Corporate	Total	Renewable	Corporate	Total
USD thousands						
Revenue	26,508	-	26,508	27,447	-	27,447
Operating expenses	(5,820)	-	(5,820)	(5,390)	-	(5,390)
General and administrative expenses	(902)	(2,575)	(3,477)	(640)	(4,224)	(4,864)
Other income (expenses)	329	22	351	3	13	16
Impairment	-	(278)	(278)	-	(2,468)	(2,468)
EBITDA	20,115	(2,831)	17,284	21,420	(6,679)	14,741
Depreciation and amortization	(12,125)	(108)	(12,233)	(11,203)	(169)	(11,372)
Finance income	639	5,338	5,977	(73)	3,740	3,667
Finance costs	(13,173)	(3,921)	(17,094)	(14,368)	(3,948)	(18,316)
Income (loss) before income tax	(4,544)	(1,522)	(6,066)	(4,224)	(7,056)	(11,280)
Income tax recovery (expense)	848	(1,886)	(1,038)	(1,138)	(122)	(1,260)
Net income (loss) for the period	(3,696)	(3,408)	(7,104)	(5,362)	(7,178)	(12,540)

During the six months ended June 30, 2016, the Group's renewable energy segment generated revenues of \$26.5 million and EBITDA of \$20.1 million, which represented a decrease of 3.4% and 6.1%, respectively, in comparison with the same period in 2015. In addition, the Group's renewable energy segment generated a net loss of \$3.7 million, 31% lower in comparison with the net loss result for the same period in 2015. The main reasons for the net loss in the renewable segment were the lower than expected Market Price and electricity production in Italy and Chile, as well as higher than expected Nodal Costs that impacted EBITDA contributed by Project Salvador, partially offset by the positive performance in Japan and management strategies to reduce the cost of operations and cost of long-term financing. The Group's corporate segment generated negative EBITDA of \$2.8 million and net loss of \$3.4 million due to finance costs associated with the Company's corporate bond, corporate general and administrative expenses and foreign exchange movements.

NON-GAAP PERFORMANCE MEASURES

Reconciliation of adjusted net income (loss) to net income (loss)	Three months ended		Six months ended	
USD thousands	Q2-16	Q2-15	Q2-16	Q2-15
Net income (loss)	1,443	(10,057)	(7,104)	(12,540)
Adjustments for non-recurring items:				
Italian property tax reduction	(469)	-	(469)	-
Impairment	278	2,468	278	2,468
RSUs expense reversal	(363)	-	(363)	-
Adjustments for non-cash items:				
Depreciation and amortization	6,168	5,800	12,233	11,372
Fair value movements (derivative financial instruments)	379	180	1,209	257
Share-based payment expense	(167)	223	76	447
Adjusted net income (loss)	7,269	(1,386)	5,860	2,004

Reconciliation of adjusted operating cash flows to operating cash flows	Three months ended		Six months ended	
USD thousands	Q2-16	Q2-15	Q2-16	Q2-15
Operating cash flow	5,020	(2,534)	9,318	(10,609)
- Changes in working capital	6,537	13,957	6,785	27,293
- Income tax paid	880	339	880	673
Adjusted operating cash flow	12,437	11,762	16,983	17,357

Reconciliation of adjusted EBITDA to EBITDA	Three months ended		Six months ended	
USD thousands	Q2-16	Q2-15	Q2-16	Q2-15
Net income (loss)	1,443	(10,057)	(7,104)	(12,540)
Adjustments for:				
Net income tax expense	2,265	1,451	1,038	1,260
Net finance costs	2,963	12,043	11,117	14,649
Depreciation and amortization	6,168	5,800	12,233	11,372
EBITDA	12,839	9,237	17,284	14,741
Adjustments for non-recurring items:				
Italian property tax reduction	(469)	-	(469)	-
Impairment	278	2,468	278	2,468
RSUs expense reversal	(363)	-	(363)	-
Adjusted EBITDA	12,285	11,705	16,730	17,209

QUARTERLY SELECTED FINANCIAL INFORMATION

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

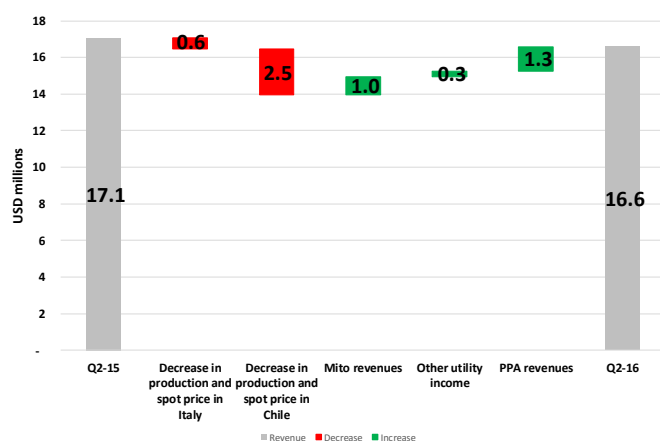
USD thousands (except per share data)	Q2-16	Q1-16	Q4-15	Q3-15	Q2-15	Q1-15	Q4-14	Q3-14
Revenue	16,605	9,903	7,088	15,913	17,060	10,387	6,368	17,129
Net (loss) income	1,443	(8,547)	(1,808)	(4,389)	(10,057)	(2,483)	(8,006)	1,193
Net (loss) income attributable to owners of the company	2,438	(7,588)	(1,340)	(3,136)	(9,227)	(1,614)	(8,014)	1,255
Basic and diluted earnings (loss) per share	0.007	(0.023)	(0.004)	(0.009)	(0.028)	(0.005)	(0.025)	0.004

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 Italy, revenues are received in Euros 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.

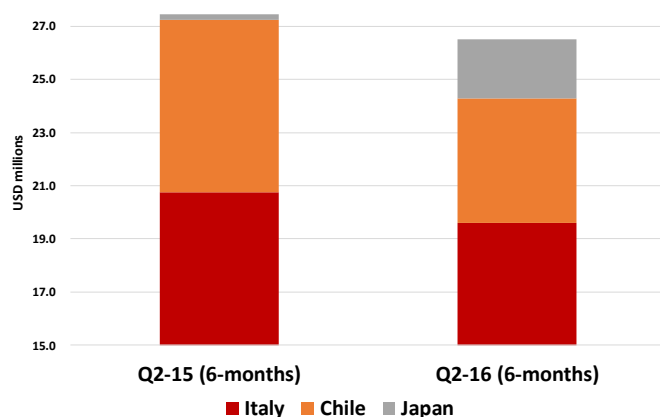
REVENUE

USD thousands	Three months ended		Six months ended	
	Q2-16	Q2-15	Q2-16	Q2-15
FiT revenue	13,353	12,675	19,805	18,479
Market Price revenue	1,702	4,385	3,041	8,968
PPA revenue	1,298	-	3,267	-
Other utility income	252	-	395	-
Total revenue	16,605	17,060	26,508	27,477

Revenues decreased by \$0.5 million (2.7%) during Q2-16 compared to the same period of 2015, mainly due to lower than expected Market Price and electricity production in Italy and Chile, partially offset by additional production and FiT revenues in Japan. In Q2-16, the Group's revenue from spot market prices represented 10% of the 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.



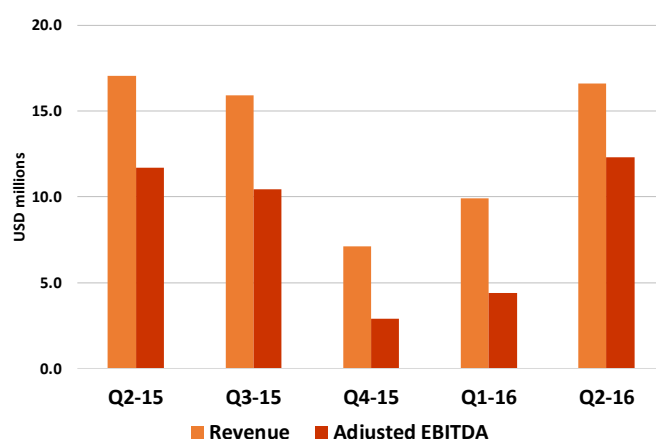
Revenues decreased by \$1.0 million (3.5%) during the first half of 2016 compared to the same period of 2015 mainly due to lower than expected Market Price and electricity production in Italy and Chile, partially offset by additional production and FiT revenues in Japan.



ADJUSTED CONSOLIDATED EBITDA

During Q2-16 adjusted consolidated EBITDA increased by \$0.6 million (5%), compared to the same period of 2015, mainly as a result of the positive performance in Japan and the overall reduction of operating expenses and general and administrative expenses.

During the six months ended June 30, 2016, adjusted consolidated EBITDA decreased by \$0.5 million (3%), compared to the same period of 2015, mainly as a result of the impact of Nodal Costs partially offset by the positive performance in Japan and the overall reduction of operating expenses and general and administrative expenses.



Etrion's adjusted EBITDA associated with its operating projects fluctuates as revenues are subject to seasonality, while operating expenses are fixed.

OPERATING EXPENSES

USD thousands	Three months ended		Six months ended	
	Q2-16	Q2-15	Q2-16	Q2-15
O&M costs	957	1,328	1,961	2,390
Purchased power	707	-	1,848	-
Personnel costs	382	314	758	555
D&A	6,114	5,713	12,125	11,203
Property tax	(303)	411	100	824
Insurance	149	239	316	373
Land lease	93	59	183	110
Transmission (recovery) cost	(256)	185	(82)	503
Other expenses	428	336	736	635
Total operating expenses	8,271	8,585	17,945	16,593

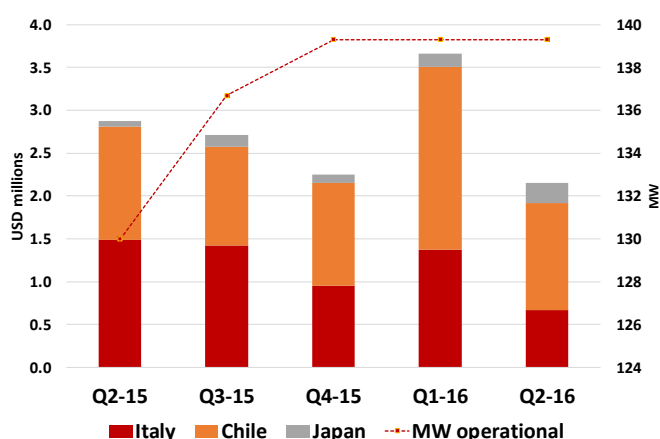
Operating expenses decreased by \$0.3 million (4%) during Q2-16, compared to the same period of 2015 mainly due reduction of O&M expenses (During 2015, Etrion re-negotiated the O&M contracts of its Italian and Chilean projects which resulted in the reduction of associated costs by approximately 35% on average), recognition of lower property taxes, following the implementation of a regulatory change in Italy as well as the impact of net transmission costs in favor of Project Salvador during the quarter.

Operating expenses increased by \$1.4 million (8%) during the first half of 2016, compared to the same period of 2015 primarily due to the incremental depreciation expense and cost associated with the O&M contracts of the Mito project. This

was partially offset by the change in the O&M costs for the Italian and Chilean subsidiaries.

In addition, 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 six months ended June 30, 2016, the average Nodal Costs were approximately \$0.055 per kWh and \$0.056 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.

Transmission recovery and costs during Q2-16 and the six months ended June 30, 2016, relate to reimbursements and fees associated with the utilization of the private electricity grid in the SIC area in Chile to deliver electricity to final consumers that is paid by the electricity producers. Transmission recovery and costs are calculated based on an annual payment that considers the investment and O&M of facilities (lines, transformers, system protection, etc.). According to certain legal changes being introduced and not yet approved, all the transmission and sub-transmission costs, currently paid by generators like Etrion, will be passed through to the final consumers. These proposed legal changes would provide for a gradual reduction of transmission costs for electricity producers until 2034 when all the transmission costs will be paid by the final consumers. 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 Chile and Japan.



GENERAL AND ADMINISTRATIVE EXPENSES

USD thousands	Three months ended		Six months ended	
	Q2-16	Q2-15	Q2-16	Q2-15
Salaries and benefits	448	789	1,104	1,673
Board of directors fees	49	85	86	175
Share-based payments	(167)	223	76	447
Professional fees	898	904	1,427	1,538
Listing and marketing	103	161	177	289
D&A	54	87	108	169
Office lease	105	82	219	165
Office, travel and other	218	278	388	577
Total general and admin	1,708	2,609	3,585	5,033

General and administrative expenses decreased by \$0.9 million (35%) and \$1.4 million (29%) during Q2-16 and the six months

ended June 30, 2016, compared to same period in 2015, primarily due to a lower headcount, decrease in salaries and benefits 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 the three months ended June 30, 2016, the Group recognized a reduction in the stock based compensation expense of \$0.4 million as Etrion's management expects that none of the Company's restricted share units ("RSUs") granted in July 2014 will reach the performance condition targets.

IMPAIRMENT

During the three months ended June 30, 2016, the Company decided to impair capitalized development costs of \$0.3 million (2015: \$2.5 million) associated with development activities for Chilean projects it is no longer pursuing.

NET FINANCE COSTS

USD thousands	Three months ended		Six months ended	
	Q2-16	Q2-15	Q2-16	Q2-15
Interest project loans	5,378	6,713	10,772	13,181
Interest corporate bond	2,247	2,249	4,441	4,456
Fair value movements	379	180	1,209	257
Foreign exchange (gain) loss	(5,197)	2,759	(5,575)	(3,543)
Other finance costs	156	142	270	298
Net finance cost	2,963	12,043	11,117	14,649

Net finance costs decreased by \$9.1 million (75%) and \$3.5 million (24%) during Q2-16 and the six months ended June 30, 2016, respectively, compared to 2015, primarily due to an increase in foreign exchange gains mainly associated with the Euro denominated loan of a Japanese subsidiary using the Japanese Yen as functional currency. Excluding the non-cash foreign exchange gains, other finance costs and fair value movements, total finance costs decreased by \$1.3 million (15%) and \$2.4 million (14%) due to the reduction of finance costs in Italy following the refinancing transaction completed in December 2015.

During Q2-16 and the six months ended June 30, 2016, the Group capitalized \$0.2 million (2015: \$0.3 million) and \$0.4 million (2015: \$0.8 million) of borrowing costs associated with credit facilities obtained to finance the construction of Shizukuishi and Aomori.

INCOME TAX EXPENSE

USD thousands	Three months ended		Six months ended	
	Q2-16	Q2-15	Q2-16	Q2-15
Current income tax expense	3,407	3,126	3,353	1,936
Deferred tax recovery	(1,142)	(1,675)	(2,315)	(676)
Net income tax expense	2,265	1,451	1,038	1,260

Net income tax expense increased by \$0.8 million (56%) during Q2-16, compared to the same period of 2015, mainly as a result of higher corporate income tax expense associated with the management service entities of the Group. Net income tax expense decreased by \$0.2 million (18%) during the first half of 2016, compared to the same period of 2015, mainly as a result of additional taxable losses and associated tax benefits generated as a result of lower Market Price in Chile.

FINANCIAL POSITION

LIQUIDITY AND FINANCING

CASH POSITION

USD thousands	June 30 2016	December 31 2015
Cash and cash equivalents:		
Unrestricted at parent level	9,573	17,582
Restricted at project level	56,993	34,917
Total cash and cash equivalents	66,566	52,499

UNRESTRICTED CASH ANALYSIS

The Group's cash and cash equivalents at June 30, 2016, included unrestricted cash of \$9.6 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 2016 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	June 30 2016	December 31 2015
Italy	5,411	6,585
Chile	12,187	19,474
Japan	39,395	8,858
Total restricted cash	56,993	34,917

The Group's cash and cash equivalents at June 30, 2016, included restricted cash held at the project level in Italy, Chile and Japan 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 June 30, 2016, the Group had working capital of \$37.5 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 \$41.6 million. (December 31, 2015: \$4.7 million). At June 30, 2016, the Group's contractual obligations for the next five years and thereafter are as follows:

USD thousands	2016	2017	2018	2019	2020	After 5 years	Total
EPC contract	21,765	15,156	-	-	-	-	36,921
Project loans	3,807	26,828	37,314	37,313	34,485	276,079	415,826
Corporate bond	7,105	7,105	7,105	92,369	-	-	113,684
O&M contracts	1,707	3,605	3,631	3,732	4,329	51,333	68,337
Operating leases	713	1,274	1,277	1,281	1,285	20,005	25,835
Trade payables	19,314	-	-	-	-	-	19,314
Total	54,411	53,968	49,327	134,695	40,099	347,417	679,917

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

NET EQUITY

During the first half of 2016, the total equity attributable to owners of the Company decreased by \$18.3 million from a net asset position of \$7.0 million at December 31, 2015, to a net liability position of \$11.3 million at June 30, 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 June 30, 2016, was negatively impacted by the cumulative fair value losses of \$49.1 million recognized within other reserves that are associated with the Group's derivative financial instruments. Excluding these fair value losses, the total equity attributable to owners of the Company at June 30, 2016, would have resulted in a net asset position of \$37.8 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	June 30 2016	December 31 2015
Etrion SpA	53.7	December 31, 2029	220,078	222,990
Helios ITA	6.4	December 31, 2028	25,072	26,250
Salvador	70.0	September 1, 2033	151,386	153,231
Shizukuishi	24.7	December 31, 2034	71,986	19,952
Mito	9.3	June 30, 2034	27,618	23,578
Total	164.0		496,140	446,001

Italian projects

On June 13, 2016, the Group's Italian subsidiary, Helios ITA, completed a debt restructuring transaction, modifying the terms of the original floating-rate credit facility outstanding obtained to finance the construction of this solar power project. The amended facility matures on December 2028 and bears annual interest rates of Euribor plus a margin range of 2.45%-3.75%. The Helios ITA restructuring included the extension of the final maturity, optimization of the debt repayment schedule and improvements to cash distributions going forward. The Helios ITA restructuring completes management's initiative to renegotiate the non-recourse projects loans of its entire portfolio of solar assets in Italy of 17 solar plants for a total of 60 MW of installed capacity.

Upon completion of this restructuring transaction, the Group's Italian subsidiary unwound the previously existing interest rate swap contract and entered into a new one to hedge 90% of future interest payments under the terms of the new credit facility. No amounts were paid upon exchange of these derivatives because the fair market value of the previous and new interest rate swap contract was the same at the transaction date.

All the Italian non-recourse projects loans are hedged through interest rate swap contracts, all of which qualified for hedge accounting at June 30, 2016, and December 31, 2015.

At June 30, 2016, the fair value of the non-recourse project loans and project bond approximated their carrying values as the loans bear floating interest rates.

At June 30, 2016, the Group had no undrawn amounts associated with these facilities, including the new debt service reserve facility. At June 30, 2016, the Group was not in breach of any of the imposed operational and financial covenants associated with its Italian project loans.

Chilean projects

The non-recourse project loan obtained by the Group's Chilean subsidiary, Salvador, to finance the construction of Project Salvador matures in 2033. The repayment of these credit facilities is secured principally by the proceeds from the sale of electricity in the spot market. The loan is accounted for using the amortized costs method based on the effective interest rate. The fair value of this credit facility equals its carrying amount, as the impact of discounting is not significant given the fixed-rate terms of the loan.

At June 30, 2016 and December 31, 2015, the Group was not in breach of any of the imposed operational and financial covenants associated with its Chilean project loans.

Japanese projects

During the six months ended June 30, 2016, the Group's Japanese subsidiaries, Shizukuishi and Mito, drew additional ¥4,710 million from the senior financing agreement (2015: ¥3,920 million) and additional ¥299 million from the VAT credit facility (2015: ¥301 million). As of June 30, 2016, there were no undrawn amounts under the senior financing agreement or the VAT credit facility.

During the three months ended June 30, 2016, The Group's Japanese subsidiary that holds the 9.5 MW Aomori project entered into a senior secured financing agreement in Japanese yen (¥3,003 million) to finance the construction costs of this solar project. This Aomori credit facility matures in 2035 and bears TIBOR floating interest rates plus a margin of 1.1%. The Aomori non-recourse projects loan is expected to be 90% hedged through interest rate swap contracts during the operational period. In addition, the Group's Japanese subsidiary entered into a VAT credit facility agreement in Japanese yen (¥233 million) in order to finance the related VAT capital disbursements of the Aomori project. This VAT credit facility has a term of two years and bears a variable interest rate plus a margin.

At June 30, 2016, the fair value of the non-recourse project loans approximated their carrying values as the loans bear floating interest rates. At June 30, 2016 and December 31, 2015, the Group was not in breach of any of the imposed operational and financial covenants associated with its Japanese project loans.

Corporate borrowings

At June 30, 2016 and December 31, 2015, the Group had €80 million of corporate bonds outstanding listed in the Oslo Stock Exchange. 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 June 30, 2016, including accrued interest net of transaction costs, was \$89.0 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 June 30, 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 June 30, 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	June 30 2016	December 31 2015
Total borrowings as per IFRS	585,103	533,060
VAT facilities	(5,823)	(2,481)
Accrued interest	(2,221)	(2,231)
Transaction costs	13,018	13,180
Adjusted borrowings	590,077	541,528
Cash and cash equivalents	(66,566)	(52,499)
Adjusted consolidated net debt	523,511	489,029
Adjusted corporate net debt	79,327	69,514

The Group's consolidated net debt increased during the six months ended June 30, 2016, in comparison with December 31, 2015, mainly due additional funds drew from the SMTB credit facility to fund the constructions costs of Shizukuishi.

OUTSTANDING SHARE DATA

At the date of this MD&A, the Company had 334,094,324 common shares (August 11, 2015: 334,094,324) and options to acquire 3,202,000 common shares of the Company (August 11, 2015: 4,765,000) issued and outstanding. The options expire at various dates between March 19, 2017, and April 28, 2018, with exercise prices ranging between 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 performance-based vesting conditions. The Company had 15,540,892 RSUs granted to certain employees of the Company under this long-term incentive plan, all of which were outstanding as of August 10, 2016.

As of June 30, 2016, Etrion's management expects that none of the Company's RSUs granted in July 2014 will reach the performance conditions targets and as a result, during the second quarter of 2016, the Group recognized a reduction in the stock based compensation expense of \$0.4 million.

OFF-BALANCE SHEET ARRANGEMENTS

The Group had no off-balance sheet arrangements at June 30, 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 of its backlog in Japan, the Company does not anticipate beginning construction until the second half of 2016. Equity required to build solar projects in Japan is approximately \$0.5 million per MW, representing 15% of the total cost per MW. The equity required is expected to be reduced by a development fee of approximately \$0.2 million per MW.

The equity needs to build these projects are likely to be contributed throughout the construction period, typically expanded over a two year construction period, rather than at start of construction. According to management estimates total net equity cash contributions would be made as follows:

Japanese backlog	H2-2016	H1-2017	H2-2017	H1-2018
Komatsu	7.3	(3.0)	-	-
Kumamoto	-	2.1	4.1	4.7
Total USD million	7.3	(0.9)	4.1	4.7

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 the six months ended June 30, 2016, general and administrative expenses of \$1.5 million (2015: \$0.7 million) representing internally-generated costs (\$1.0 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 Chile and 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 June 30, 2016, the Group had a contractual obligation to acquire construction services in the amount of \$36.9 million related to the construction of the 24.7 MW Shizukuishi and 9.5 MW Aomori solar power projects in Japan. This contractual obligation will be funded from existing cash available at the project company level or from future cash flows from operations with no additional capital investments to be made by the Group or additional funding from the Group's unrestricted cash balance.

Contingencies

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

There has been no change to the critical accounting estimates and assumptions used in the preparation of the Company's condensed consolidated interim financial statements for the three months ended June 30, 2016, from those disclosed in the notes to the Company's consolidated financial statements for the year ended December 31, 2015.

During the three months ended June 30, 2016, the Group did not adopt any new standards and interpretations or amendments thereto applicable for financial periods beginning on or after January 1, 2016.

RELATED PARTIES

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

The related party transactions disclosed in the notes to the Company's condensed consolidated interim financial statements for the three months ended June 30, 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 the three and six months ended June 30, 2016, the Group incurred general and administrative expenses of \$5,000 and \$8,000 (2015: \$28,000 and \$51,000), respectively, from Lundin Services BV and, at June 30, 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 the three and six months ended June 30, 2016, the Group incurred general and administrative expenses of \$7,000 and \$14,000 (2015: \$14,000 and \$14,000), respectively, from Lundin Petroleum AB.

Lundin family

During the three and six months ended June 30, 2016, the Group recognized \$0.2 million and \$0.4 million (2015: \$0.2 million and \$0.4 million) of interest expense and \$12,000 and \$23,000 (2015: \$11,000 and \$21,000), respectively, 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 the three and six months ended June 30, 2016, the Group recognized \$0.1 million and \$0.5 million (2015: \$0.6 million and \$1.1 million, respectively) 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 June 30, 2016, the Group had \$nil 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 condensed consolidated interim financial statements for the year ended December 31, 2015, 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	June 30 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	4,031	3,230
Non-current portion	25,897	10,639
Total derivative financial instruments	29,928	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 Italy and 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 Euribor and TIBOR interest rate forward yield curve and an appropriate discount factor.

During the three and six months ended June 30, 2016, the Group recognized a net fair value loss of \$4.1 million (2015: net fair value gain of \$6.2 million) and \$11.5 million (2015: net fair value gain of \$5.3 million), respectively, net of tax within other comprehensive income related to the effective portion of the Group's interest rate swap contracts. The increase in these net fair value losses was driven by a decrease in the forecasted Euribor and TIBOR interest rate curves.

During the six months ended June 30, 2016, the Group reclassified from other reserves to the income statement the re-designated portion of previous hedging relationships in the amount of \$1.2 million.

At June 30, 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, 2015, 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 are 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 Europe and other parts of the world is unionized and politicized, and the Group's operations may be subject to strikes and other disruptions. In addition, the success of the Company is largely dependent upon the performance of its management and key employees. There is a risk that the departure of any member of management or any key employee could have a material adverse effect on the Group.

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

ETRION OUTLOOK AND GUIDANCE

On March 16, 2016, Etrion issued a revenue and project-level EBITDA forecast for the fiscal year ending December 31, 2016. The Group has reviewed the previously released guidance in light of the half year performance and have concluded that at this stage there is no basis to modify the guidance for the full year. The Group will continue to reassess its guidance and will make any adjustments and disclosures as may be warranted.

DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Forward-looking information and statements are included throughout this MD&A and include, but are not limited to, statements with respect to: the Group's plans for future growth and development activities (including, but not limited to, expectations relating to the timing of the development, construction, permitting, licensing, financing operation and electricity production, as the case may be, of its future solar power plants in Japan and Chile); expectations relating to future solar energy production and the means by which, and to whom, such future solar energy will be sold; the need for, and amount of, additional capital to fund the construction or acquisition of new projects and the expected sources of such capital; expectations relating to grid parity; the expected key drivers for growth; expectations with respect to future mining growth in Chile; and expectations with respect to the timing of a decision of the Italian Constitutional Court regarding changes to the Italian FiT regime. 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; the lack of confirmation or the reduction of the applicable FiT and the Market Price for electricity sales in Italy; uncertainties with respect to the impact of the new Italian FiT regime that came into effect in 2015 and whether or not such changes will be overturned by the Italian courts; 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: confirmation of the applicable FiT and spot market price for electricity sales in Italy; 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; expectations with respect to the declining impact of seasonality on the Group's business, and assumptions relating to management's assessment of the impact of the new Italian 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.