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# **ETRION CORPORATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
THREE MONTHS ENDED MARCH 31, 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 25 MW under construction, 76 MW of backlog projects and approximately 300 MW of additional pipeline.

## CONTENTS

|  |           |
|--|-----------|
| ▪ <b>FIRST QUARTER 2016 HIGHLIGHTS</b>                                     | <b>1</b>  |
| - Operational Highlights   | 1         |
| - Financial Highlights   | 1         |
| ▪ <b>BUSINESS REVIEW</b>   | <b>2</b>  |
| - Business Overview  | 2         |
| - Operations Review  | 3         |
| - Development Activities   | 7         |
| - Solar Market Overview  | 9         |
| ▪ <b>FINANCIAL REVIEW</b>  | <b>13</b> |
| - Financial Results  | 13        |
| - Financial Position   | 18        |
| - Capital Investments  | 20        |
| - Critical Accounting Policies and Estimates                               | 21        |
| - Related Parties  | 21        |
| - Financial Risk Management  | 21        |
| - Derivative Financial Instruments   | 22        |
| ▪ <b>RISKS AND UNCERTAINTIES</b>   | <b>22</b> |
| - Financial Risks  | 22        |
| - Non-Financial Risks  | 22        |
| ▪ <b>ETRION OUTLOOK AND GUIDANCE</b>                                       | <b>23</b> |
| ▪ <b>DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING</b> | <b>23</b> |
| ▪ <b>CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION</b>        | <b>24</b> |
| ▪ <b>ADDITIONAL INFORMATION</b>  | <b>24</b> |

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") for Etrion Corporation ("Etrion" or the "Company" and, together with its subsidiaries, the "Group") is intended to provide an overview of the Group's operations, financial performance and current and future business opportunities. This MD&A, prepared as of May 11, 2016, should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and accompanying notes for the three months ended March 31, 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 March 31, 2016          | 127.54 | 112.43 | 1.14 |
| Closing rate at March 31, 2015          | 129.50 | 120.21 | 1.07 |
| Three month average rate March 31, 2016 | 127.13 | 115.43 | 1.10 |
| Three month average rate March 31, 2015 | 134.17 | 119.05 | 1.13 |

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 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 15). 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 24.

## FIRST QUARTER 2016 HIGHLIGHTS

### OPERATIONAL HIGHLIGHTS

- Produced 16.4 million kilowatt-hours ("kWh") of electricity from the Company's 100%-owned 60 MW portfolio comprising 17 solar power plants in Italy.
- Produced 46.0 million kWh of electricity from the Company's 70%-owned 70 MW Salvador solar power plant in Chile ("Project Salvador").
- Produced 2.8 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 25 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 three projects in Japan for a total capacity of 76 MW. Management expects to reach financial close for these backlog projects within the second half of 2016. The Company is advancing the development of additional projects in Japan for a combined capacity of 190 MW. Finally, the Company continues to maintain its shovel-ready 99 MW in Chile which are targeted to be built once Power Purchase Agreements ("PPAs") are secured.

### FINANCIAL HIGHLIGHTS

- Generated revenues and project-level EBITDA of \$9.9 million and \$5.9 million, respectively, from the Company's 23 solar power plants in Italy, Chile and Japan.
- Closed Q1-16 with a cash balance of \$54.5 million, \$14.1 million of which was unrestricted and held at the parent level, and working capital of \$21.7 million.
- On March 22, 2016, the Group's Italian subsidiary, Helios ITA, received a waiver from the project finance banks of certain provisions of the senior credit facility agreement regarding the calculation of financial ratios and breach of covenants. As a result, the Helios ITA total debt outstanding is not considered to be immediately repayable and has been classified as non-current.

| USD thousands (unless otherwise stated)         | Three months ended       |                             |
|---|--------------------------|-----------------------------|
|   | Q1-16                    | Q1-15                       |
| <b>Electricity production (MWh)<sup>1</sup></b> | <b>65,136</b>            | <b>64,431</b>               |
| Italy   | 16,404                   | 16,966                      |
| Chile   | 45,980                   | 47,465                      |
| Japan   | 2,752                    | -                           |
| <b>Financial results</b>                        |                          |                             |
| Revenues  | 9,903                    | 10,387                      |
| Gross profit                                    | 229                      | 2,379                       |
| EBITDA  | 4,445                    | 5,504                       |
| Adjusted EBITDA                                 | 4,445                    | 5,504                       |
| Adjusted EBITDA margin (%)                      | 45%                      | 53%                         |
| Net loss  | (8,547)                  | (2,483)                     |
| Adjusted net income (loss)                      | (1,409)                  | 3,390                       |
| <b>Cash flow</b>                                |                          |                             |
| Project cash distributions                      | -                        | 2,663                       |
| Cash flow from (used in) operations             | 4,298                    | (8,075)                     |
| Adjusted operating cash flow                    | 4,546                    | 5,595                       |
|   | <b>March 31<br/>2016</b> | <b>December 31<br/>2015</b> |
| <b>Balance sheet</b>                            |                          |                             |
| Total assets                                    | 629,095                  | 613,320                     |
| Operational assets                              | 466,140                  | 457,745                     |
| Unrestricted cash at parent level               | 14,106                   | 17,582                      |
| Restricted cash at project level                | 40,346                   | 34,917                      |
| Working capital                                 | 21,681                   | 1,459                       |
| Consolidated net debt on a cash basis           | 506,932                  | 489,029                     |
| Corporate net debt on a cash basis              | 76,974                   | 69,514                      |

<sup>1</sup> 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 25 MW of gross solar projects under construction in Japan and several projects at different stages of development in Japan and Chile.

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 power purchase agreements (“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 strategy is focused on:

- **Geographic Diversity** – Entering new regions with high electricity prices, robust energy demand and abundant renewable resources or strong mandates to diversify energy mix with attractive government incentives.
- **Revenue Diversity** – Complementing FIT revenues with revenues derived from long-term PPAs or the spot/merchant market.
- **Yield** – Creating a platform with the option to declare dividends to shareholders.
- **Growth** – Building a large pipeline of renewable energy development projects through key partnerships.

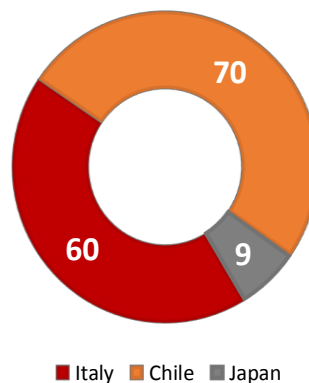
The Company’s business model focuses on six key drivers for success:

- (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 (“NASDAQ OMX”). Etrion has a corporate bond listed on the Oslo Stock Exchange in Norway. Etrion is based in Miami, Florida, United States of America 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 30 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 MARCH 31

| USD thousands (unless otherwise stated)       | Q1-16          |                |            |                | Q1-15          |                |             |                |
|---|----------------|----------------|------------|----------------|----------------|----------------|-------------|----------------|
|   | Italy          | Chile          | Japan      | Total          | Italy          | Chile          | Japan       | Total          |
| <b>Operational data <sup>(1)</sup></b>        |                |                |            |                |                |                |             |                |
| Electricity production (MWh)                  | 16,404         | 45,980         | 2,752      | <b>65,136</b>  | 16,966         | 47,465         | -           | <b>64,431</b>  |
| <b>Operational performance <sup>(1)</sup></b> |                |                |            |                |                |                |             |                |
| <b>Electricity revenue</b>                    |                |                |            |                |                |                |             |                |
| Feed-in-Tariff                                | 5,494          | -              | 958        | <b>6,452</b>   | 5,804          | -              | -           | <b>5,804</b>   |
| Market price                                  | 647            | 692            | -          | <b>1,339</b>   | 959            | 3,624          | -           | <b>4,583</b>   |
| PPAs  | -              | 1,969          | -          | <b>1,969</b>   | -              | -              | -           | -              |
| Other utility income                          | -              | 143            | -          | <b>143</b>     | -              | -              | -           | -              |
| <b>Total revenues</b>                         | <b>6,141</b>   | <b>2,804</b>   | <b>958</b> | <b>9,903</b>   | <b>6,763</b>   | <b>3,624</b>   | -           | <b>10,387</b>  |
| <b>Project-level EBITDA</b>                   | <b>4,496</b>   | <b>634</b>     | <b>768</b> | <b>5,898</b>   | <b>4,843</b>   | <b>2,681</b>   | <b>(18)</b> | <b>7,506</b>   |
| <b>Project-level EBITDA margin (%)</b>        | <b>73%</b>     | <b>28%</b>     | <b>80%</b> | <b>60%</b>     | <b>72%</b>     | <b>74%</b>     | -           | <b>72%</b>     |
| <b>Net (loss) income</b>                      | <b>(1,718)</b> | <b>(3,267)</b> | <b>138</b> | <b>(4,847)</b> | <b>(2,690)</b> | <b>(2,106)</b> | <b>(7)</b>  | <b>(4,803)</b> |

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

## OPERATING PERFORMANCE

### Power Production

During Q1-16, the Group produced 1% more electricity compared to the same period in 2015, due primarily to the addition of the Mito project in Japan partially offset by a decrease in electricity production in Chile and Italy.

### Italian projects

During Q1-16, the Italian solar projects produced approximately 16.4 million kWh of electricity, 3% less than the comparable period in 2015, mainly due to lower than expected solar irradiation.

### Chilean project

Project Salvador's production of approximately 46 million kWh of electricity during Q1-16 was 3% 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 early 2018. During Q1-16, approximately 20 million kWh of the total electricity production was sold to EE-ERNC-1, an investment grade off-taker, under the terms of the 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).

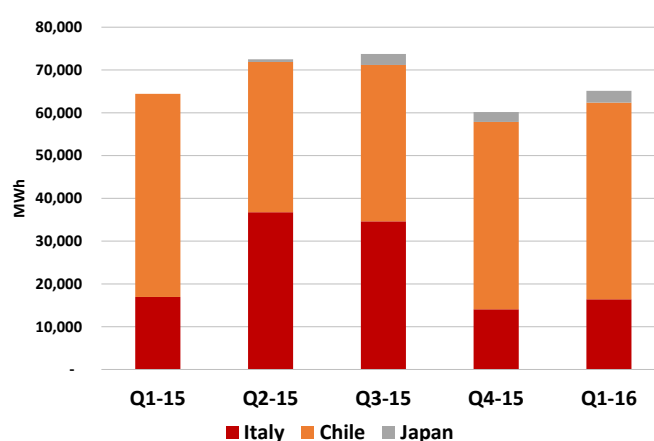
### Japanese project

The Mito Project in Japan produced a total of approximately 2.8 million kWh of electricity during the Q1-16, 12% above forecasts due to high irradiation and a high performance ratio.

### 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 and production from the newly added solar projects in Chile and Japan:



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, whereby a fixed price is received for each kWh of electricity produced and sold under private electricity sale agreements.

### Italian projects

During Q1-16 and Q1-15, 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 20% as the Group received an average of €0.040 per kWh in Q1-16 compared to €0.050 per kWh during the same period in 2015, mainly due to the decrease of wholesale prices, as a result of the combined effect of low demand and lower cost of fuel (mainly natural gas).

### Chilean project

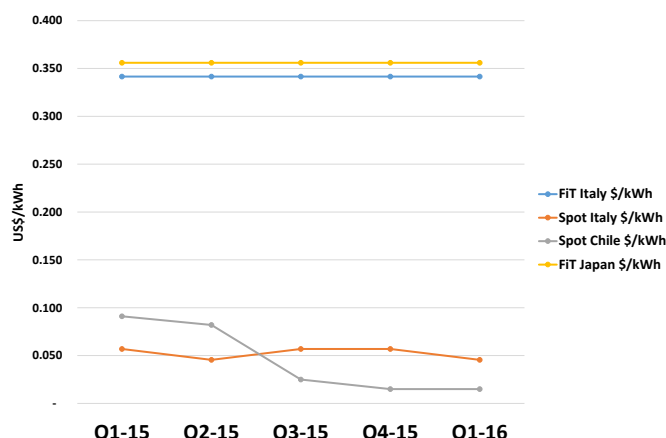
In Chile, the average Market Price received by the Group during Q1-16 for Project Salvador was \$0.015 per kWh, approximately 83% lower than the same period in 2015. The Market price in the Sistema Interconectado Central ("SIC") electricity network in Chile were particularly low during Q1-16 due to a 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 receives 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 March 31, 2016, the average Nodal Costs was approximately \$0.057 per kWh.

### Japanese project

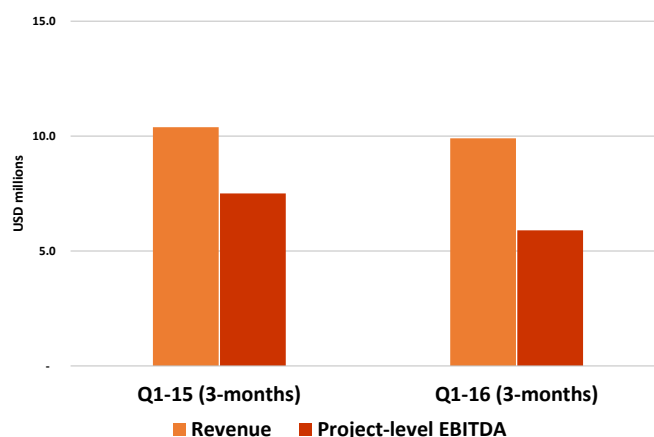
In Japan, during Q1-16 the Group received the FiT of ¥40 per kWh applicable to the five sites of the Mito cluster operational since August 2015.

The chart below shows the evolution of average electricity prices, expressed in \$/kWh (calculated with exchange rates as of March 31, 2016), applicable to the solar power plants operated by the Group during the last five quarters:



### Revenue and project-level EBITDA

Despite a 1% increase in total electricity production, during Q1-16 the Group's revenue and project-level EBITDA decreased 5% and 21%, 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 higher than expected Nodal Costs that impacted EBITDA contributed by Project Salvador.



However, during Q1-16, revenues and project-level EBITDA were positively impacted by additional production from the Mito Project and management's continued efforts to reduce operating cost and streamline the operations in Italy and Chile.

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 currency (\$) using the corresponding Q1-16 average rates.

Therefore, 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.



## 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<br>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          |
| <b>Total</b> |        | <b>17</b> | <b>60.1</b> |             |                 |

### Cassiopea

The Cassiopea project in Montalto di Castro in the Lazio region of Italy consists of one ground-mounted solar photovoltaic ("PV") park with a total capacity of 24 MW. The solar park was connected to the electricity grid in November 2009. The Cassiopea solar park was built by SunPower, a US-based solar panel manufacturer and installer, using high-efficiency SunPower modules mounted on single axis trackers with power conversion provided by SMA Solar Technology AG ("SMA") inverters. Cassiopea has an O&M contract with SunPower. During Q1-16, the solar park realized the 2009 revised FiT of €0.325 per kWh plus the average Market Price of approximately €0.040 per kWh.

### Helios ITA-3

The Helios ITA-3 project in Puglia, Italy, consists of two ground-mounted solar PV parks: Brindisi (5 MW) and Mesagne (5 MW). Both parks were completed and connected to the electricity grid in August 2011. The Helios ITA-3 solar parks were built by ABB, the Swiss power and automation technology group, using Yingli poly-crystalline PV modules mounted on SunPower single axis trackers with power conversion provided by Bonfiglioli inverters. Helios ITA-3 has an O&M contract with ABB. During Q1-16, both solar parks realized the August 2011 revised FiT of €0.23 per kWh plus the average Market Price of approximately €0.040 per kWh.

### Centauro

The Centauro project in Montalto di Castro in the Lazio region of Italy consists of one ground-mounted solar PV park with a total capacity of 8.8 MW. The solar park was connected to the electricity grid in July 2010. The Centauro solar park was built by SunPower using high-efficiency SunPower modules mounted on single axis trackers with power conversion provided by SMA inverters. Centauro has an O&M contract with SunPower. During 2015, the solar park realized the 2010 revised FiT of €0.318 per kWh plus the average Market Price of approximately €0.040 per kWh.

### Helios ITA

The Helios ITA project in Puglia, Italy, consists of seven ground-mounted solar PV parks with a total capacity of 6.4 MW. Six of the solar parks were connected to the electricity grid in December 2009, and the last park built was connected in December 2010. The Helios ITA solar parks were built by Solon, a German solar panel manufacturer and installer, using single axis trackers with Solon poly-crystalline modules and Santerno inverters. The original O&M contractor was Solon. In July 2012, the Group entered into a new O&M contract with ABB. During Q1-16, six of the Helios ITA solar parks, just under 1 MW each for a total of 5.8 MW, realized the 2009 revised FiT of €0.325 per kWh plus the average Market Price of approximately €0.040 per kWh. The last park built (0.6 MW) realized the 2010 revised FiT of €0.318 per kWh plus the average Market Price of approximately €0.040 per kWh.



## Etrion Lazio

The Etrion Lazio project in Lazio, Italy, consists of two ground-mounted solar PV parks: Borgo Piave (3.5 MW) and Rio Martino (1.8 MW). Both solar parks were completed in December 2010 and were connected to the electricity grid in April 2011. The Etrion Lazio solar parks were built by Phoenix Solar ("Phoenix"), a German PV system integrator, using Trina poly-crystalline PV modules installed on fixed-tilt structures with power conversion provided by SMA inverters. Etrion Lazio has an O&M contract with SMA (acquired from Phoenix). During Q1-16, both solar parks realized the 2010 revised FiT of €0.318 per kWh plus the average Market Price of approximately €0.040 per kWh.

## SVE

The SVE project in Puglia, Italy, consists of three ground-mounted solar PV parks: Oria (1 MW), Matino (1 MW) and Ruffano (1 MW). All three solar parks were connected to the electricity grid in December 2010. The SVE solar parks were built by SunPower using high-efficiency SunPower modules mounted on single axis trackers with power conversion provided by Siemens inverters. SVE has an O&M contract with SunPower. During Q1-16, all three solar parks realized the 2010 revised FiT of €0.318 per kWh plus the average Market Price of approximately €0.040 per kWh.

## Sagittario

The Sagittario project in Lazio, Italy, consists of one ground-mounted solar PV park with a total capacity of 2.6 MW. The solar park was completed and connected to the electricity grid in August 2011. The Sagittario solar park was built by Phoenix using Trina poly-crystalline PV modules installed on fixed-tilt structures with power conversion provided by SMA inverters. Sagittario has an O&M contract with SMA (acquired from Phoenix). During Q1-16, the solar park realized the August 2011 revised FiT of €0.23 per kWh plus the average Market Price of approximately €0.040 per kWh.

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 15 years. The Group's 70%-owned operating solar power project in Chile is shown below:



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

### Salvador

Project Salvador is located in the Atacama region of northern Chile and consists of one ground-mounted solar PV park with a total capacity of 70 MW. The solar park was built by SunPower using SunPower high-efficiency, single-axis tracker technology and ABB inverters. Project Salvador has an O&M contract with SunPower and approximately 65% of the electricity produced is currently sold on the spot market and delivered to the SIC electricity network. In May 2015, Project Salvador executed a long-term PPA with EE-ERNC-1, an investment grade off-taker. The PPA is for the first 70 GWh of Project Salvador's production for 15 years and started on January 1, 2016, with the electricity price denominated in USD (approximately \$0.10 per kWh) and inflated according to the US Consumer Price Index ("CPI"). Project Salvador is capable of producing approximately 200 million kWh of electricity per year and is seeking additional PPAs to secure its long-term revenues. Etrion currently owns 70% of Project Salvador. Etrion's ownership could decrease to 50.01% and, depending on the long-term cash flow realized by the project, Etrion's ownership could decrease to 0% after 20 years of operation, because the minority interests in Project Salvador have the option to acquire the shares held by Etrion, following payback of the original equity contribution of approximately \$42 million. Project Salvador was connected to the electricity grid on November 3, 2014, and reached full operational capacity on January 10, 2015.

## OPERATING PROJECTS - JAPAN

### Mito

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



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

Mito is a 9.3 MW utility-scale solar photovoltaic power project consisting of five sites in the Ibaraki Prefecture of Japan. Construction began in October 2014, with the last site connected in August 2015. The solar power plants were built on 28.3 hectares of leased land, and the facilities connect through TEPCO. In December 2014, the project company entered into two of the five planned 20-year PPAs with TEPCO under which the project company receives ¥40 per kWh produced (approximately \$0.33 per kWh). The remaining three PPAs were signed in March 2015. The total project cost of approximately ¥3.4 billion (approximately \$33.5 million) was financed 80% through non-recourse project debt from Sumitomo Mitsui Trust Bank, Limited ("SMTB") with the remaining approximately 20% equity portion funded by the Group and Hitachi High-Tech ("HHT") based on their respective ownership interests of approximately 87% and 13%. Mito has entered into a long-term fixed price O&M agreement with HHT. Mito is expected to produce approximately 10.5 million kWh of solar electricity per year. Etrion charged the Mito project with a net development fee of approximately ¥162 million (\$1.6 million).

## DEVELOPMENT ACTIVITIES

### 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 have significantly declined as well as the demand for long-term power contracts from industrial clients. The Company currently has nearly 100 MW of shovel-ready projects but has postponed its plans to build until long-term PPAs are available. However, the Company will continue to monitor developments in the Chilean electricity market and proceed with these 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 |
| Las Luces        | Atacama     | 1        | 27        | Single axis |
| <b>Total</b>     |             | <b>4</b> | <b>99</b> |             |

### 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 once 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.

## Las Luces

The Las Luces solar project in the Atacama region includes one shovel-ready site with a total capacity of 27 MW in the SIC electricity network. The land concession decree has been signed, the environmental impact assessment has been received and the mining rights have been secured. The interconnection contract is under negotiations.

Etrion should be in a position to start construction of Las Luces once the Company secures PPAs and long-term, non-recourse project finance. The project is expected to be operational within nine months from the date construction commences.

## PROJECTS UNDER CONSTRUCTION AND DEVELOPMENT - JAPAN

Etrion is pursuing renewable energy projects in Asia, with an initial focus on 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 and is expected to reach 51 GW by the end of 2016<sup>2</sup>. The Japanese government has a strong mandate to increase the use of renewable energy in Japan's energy mix in order to reduce the country's reliance on nuclear power.

In 2012, the Group and HHT signed a development agreement to jointly develop a pipeline of solar assets in Japan. The companies are targeting to reach at least 100 MW of utility-scale solar operating projects, under construction or shovel-ready in 2016. Under this agreement, both parties provide the key functions necessary to successfully develop, build and operate solar projects in Japan (including, but not limited to, obtaining the relevant permits and authorizations to build and operate the solar power facilities, developing relationships with local utilities and land owners, EPC and securing non-recourse project finance, as well as operations, maintenance and asset management services).

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



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

### Shizukuishi

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 SMTB with the remaining approximately 20% equity portion already funded by the Group and HHT based on their respective ownership interests of approximately 87% and 13%. Shizukuishi has entered into a long-term fixed price O&M agreement with HHT. 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).

<sup>2</sup> Bloomberg New Energy Finance

In addition to the Shizukuishi project under construction, Etrion is reviewing a large pipeline of opportunities in different stages of development and is in different stages of negotiation with third parties. The three most advanced projects totaling 76 MW, listed in the table below as backlog, are expected to be shovel-ready during the third and fourth quarter of 2016. 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 |
| Aomori                   | North   | 4        | 10         | Fixed-tilt |
| <b>Total backlog</b>     |         | <b>3</b> | <b>76</b>  |            |
| Brownfield 1             | Central | 1        | 55         | Fixed-tilt |
| Brownfield 2             | Central | 1        | 35         | Fixed-tilt |
| Greenfield 1             | Central | 1        | 40         | Fixed-tilt |
| Other early stage        | TBD     | TBD      | 60         | Fixed-tilt |
| <b>Total early stage</b> |         |          | <b>190</b> |            |
| <b>Total pipeline</b>    |         |          | <b>266</b> |            |

### 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 was originally expected to be shovel-ready by the second half of 2016, however, management anticipates certain delays due to the recent earthquake that affected the Kumamoto region. Once the local authorities and the local utility return to fully operational mode, Etrion will be in a position to assess the new timeline for this project.

Aomori is a 10 MW solar project in northern Japan with the FiT secured, land contract and grid impact studies in progress. Etrion has secured exclusivity with the developer, which is working with the land owner to secure the land. The Company expects to reach financial close within the second half of 2016.

The first three projects 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 twelve 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 following table. 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 HHT.

| Project                  | Project Costs | Gross Debt   | Net Equity Contribution | Net to Etrion |
|--------------------------|---------------|--------------|-------------------------|---------------|
| Komatsu                  | 37.7          | 30.2         | 4.5                     | 3.9           |
| Kumamoto                 | 185.3         | 151.7        | 19.6                    | 16.7          |
| Aomori                   | 30.8          | 26.2         | 2.1                     | 1.3           |
| <b>Total USD million</b> | <b>253.8</b>  | <b>208.1</b> | <b>26.2</b>             | <b>21.9</b>   |

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 US versus Japanese yen exchange rate.

Etrion expects to charge these projects with development fees that effectively reduce the Company's net equity contribution. 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.

## 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, 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 meeting.

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 this 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 Q1-16, was approximately €0.04 (\$0.04) 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 have 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.

Etrion's business development activities are focused on securing long-term contracts with mining and industrial clients as well as participating in public tenders to fulfill the energy needs of distribution companies servicing the regulated market. These contracts enables the Company to secure predictable revenues for the development pipeline.

During Q1-16, 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 15\$-31\$ per MWh. The weighted average market price in the last 12 months was approximately 41\$ 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 2017.



## 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 is turned 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.

The new rules addressed various aspects of the FiT and utility operations. The most important rules outlined the process for:

- **FiT application** – The timing when the FiT is determined has changed from "when interconnection request is made" to "when interconnection agreement is executed." If an interconnection agreement has not been reached due to the utility's delay, there is a backstop date for the solar developer whereby the FiT level from 270 days following the connection request is used.
- **Change in power output or in PV module specifications prior to start of operations** These changes must now be submitted for METI approval, and an increase in power output or a change in PV module manufacturer prior to start of operations will be subject to a revision of the FiT. Exceptions will be made where change in output is related to interconnection evaluation by the utility. Changes to PV module manufacturer, type or conversion efficiency (excluding increases in efficiency) will also be subject to a change in the FiT. Exceptions will be made if objective

proof is provided related to discontinued module type and in cases of PV power plants of less than 10 kW.

- **Curtailement** – The new curtailment system has been changed from the "30-day rule per annum" to an hourly basis per annum. Uncompensated curtailment up to 30 days annually based on one-day units will be changed to up to 360 hours annually. The hourly basis for curtailment expands the amount available for interconnection. Furthermore, utilities may impose installation of remote curtailment systems on PV plants.

Management believes Etrion's previously communicated joint development target with HHT of reaching 100 MW shovel-ready in Japan by the first quarter of 2016 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 presence in three key regional markets (Asia, Europe and the Americas). Solar growth is expected to continue given the compelling long-term cost reduction curve resulting in a continued reduction of the levelized cost of energy. Although most of the Company's efforts and development capital is being directed towards Japan, the Company is actively exploring new markets, with an emphasis on those that could be developed by leveraging existing partnerships.

## FINANCIAL REVIEW

### FINANCIAL RESULTS

#### FIRST QUARTER SELECTED FINANCIAL INFORMATION

During Q1-16, the Group's performance and results were positively impacted by the additional production of electricity from its Mito project connected during the second and third quarter of 2015. However, revenue, gross profit and EBITDA were impacted by lower than expected Market Price in Italy and Chile and also gross profit and EBITDA were impacted by 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 |                |
|---|--------------------|----------------|
|   | Q1-16              | Q1-15          |
| <b>Revenue</b>  | 9,903              | 10,387         |
| Gross profit  | 229                | 2,379          |
| <b>Net loss</b>                                       | <b>(8,547)</b>     | <b>(2,483)</b> |
| <b>Net loss attributable to owners of the Company</b> | <b>(7,588)</b>     | <b>(1,614)</b> |
| <b>Basic and diluted loss per share</b>               | <b>(0.02)</b>      | <b>(0.00)</b>  |
| <b>Adjustments to net loss for:</b>                   |                    |                |
| Net income tax recovery                               | (1,227)            | (191)          |
| Depreciation and amortization                         | 6,065              | 5,572          |
| Share-based payment expense                           | 243                | 224            |
| Net finance costs                                     | 8,040              | 2,450          |
| Other income  | (28)               | 23             |
| Income tax paid                                       | -                  | (334)          |
| Changes in working capital                            | (248)              | (13,336)       |
| <b>Operating cash flow</b>                            | <b>4,298</b>       | <b>(8,075)</b> |

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

| USD thousands                   | March 31<br>2016 | December 31<br>2015 |
|---------------------------------|------------------|---------------------|
| Non-current assets              | 547,129          | 531,377             |
| Current assets                  | 81,966           | 81,943              |
| <b>Total assets</b>             | <b>629,095</b>   | <b>613,320</b>      |
| Non-current liabilities         | 579,107          | 526,432             |
| Current liabilities             | 60,285           | 80,484              |
| <b>Total liabilities</b>        | <b>639,391</b>   | <b>606,916</b>      |
| <b>Net (liabilities) assets</b> | <b>(10,296)</b>  | <b>6,404</b>        |
| Working capital                 | 21,681           | 1,459               |
| Dividends declared              | -                | -                   |

## SEGMENT INFORMATION THREE MONTHS ENDED MARCH 31

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

|   | Q1-16          |                |                | Q1-15          |                |                |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
|   | Renewable      | Corporate      | Total          | Renewable      | Corporate      | Total          |
| <b>USD thousands</b>                    |                |                |                |                |                |                |
| <b>Revenue</b>                          | <b>9,903</b>   | <b>-</b>       | <b>9,903</b>   | <b>10,387</b>  | <b>-</b>       | <b>10,387</b>  |
| Operating expenses                      | (3,663)        | -              | (3,663)        | (2,518)        | -              | (2,518)        |
| General and administrative expenses     | (352)          | (1,471)        | (1,823)        | (304)          | (2,038)        | (2,342)        |
| Other income (expenses)                 | 10             | 18             | 28             | (59)           | 36             | (23)           |
| <b>EBITDA</b>                           | <b>5,898</b>   | <b>(1,453)</b> | <b>4,445</b>   | <b>7,506</b>   | <b>(2,002)</b> | <b>5,504</b>   |
| Depreciation and amortization           | (6,011)        | (54)           | (6,065)        | (5,490)        | (82)           | (5,572)        |
| Finance income                          | 196            | 186            | 382            | (39)           | 6,450          | 6,411          |
| Finance costs                           | (6,598)        | (1,938)        | (8,536)        | (7,036)        | (1,981)        | (9,017)        |
| <b>Income (loss) before income tax</b>  | <b>(6,515)</b> | <b>(3,259)</b> | <b>(9,774)</b> | <b>(5,059)</b> | <b>2,385</b>   | <b>(2,674)</b> |
| Income tax recovery (expense)           | 1,668          | (441)          | 1,227          | 256            | (65)           | 191            |
| <b>Net income (loss) for the period</b> | <b>(4,847)</b> | <b>(3,700)</b> | <b>(8,547)</b> | <b>(4,803)</b> | <b>2,320</b>   | <b>(2,483)</b> |

During Q1-16, the Group's renewable energy segment generated revenues of \$9.9 million and EBITDA of \$5.9 million, which represented a decrease of 5% and 21%, respectively, in comparison with the same period in 2015. In addition, the Group's renewable energy segment generated a net loss of \$4.8 million, flat in comparison with the net loss results for the same period in 2015. The main reasons for the net loss in the renewable segment were the lower Market Price affecting the electricity produced in Italy and Chile and the higher than expected Nodal Costs that impacted EBITDA contributed by Project Salvador, partially offset by the additional production from the Mito project in Japan. The Group's corporate segment generated negative EBITDA of \$1.5 million and negative results of \$3.7 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

| <b>Reconciliation of adjusted net loss to net (loss) income</b> | <b>Three months ended</b> |                |
|---|---------------------------|----------------|
| <b>USD thousands</b>  | <b>Q1-16</b>              | <b>Q1-15</b>   |
| <b>Net loss</b>   | <b>(8,547)</b>            | <b>(2,483)</b> |
| <b>Adjustments for non-recurring items:</b>                     |                           |                |
| Operational items   | -                         | -              |
| General and administrative items                                | -                         | -              |
| <b>Adjustments for non-cash items:</b>                          |                           |                |
| Depreciation and amortization                                   | 6,065                     | 5,572          |
| Fair value movements (derivative financial instruments)         | 830                       | 77             |
| Share-based payment expense                                     | 243                       | 224            |
| <b>Adjusted net (loss) income</b>                               | <b>(1,409)</b>            | <b>3,390</b>   |

## Reconciliation of adjusted operating cash flows to operating cash flows

USD thousands

Three months ended  
Q1-16 Q1-15

|                                     |              |                |
|-------------------------------------|--------------|----------------|
| <b>Operating cash flow</b>          | <b>4,298</b> | <b>(8,075)</b> |
| - Changes in working capital        | 248          | 13,336         |
| - Income tax paid                   | -            | 334            |
| <b>Adjusted operating cash flow</b> | <b>4,546</b> | <b>5,595</b>   |

## Reconciliation of adjusted EBITDA to EBITDA

USD thousands

Three months ended  
Q1-16 Q1-15

|                                    |                |                |
|------------------------------------|----------------|----------------|
| <b>Net loss</b>                    | <b>(8,547)</b> | <b>(2,483)</b> |
| Adjustments for:                   |                |                |
| Net income tax expense             | (1,227)        | ( 191)         |
| Net finance costs                  | 8,154          | 2,606          |
| Depreciation and amortization      | 6,065          | 5,572          |
| <b>EBITDA</b>                      | <b>4,445</b>   | <b>5,504</b>   |
| Non-recurring items                |                |                |
| - Operating Items                  | -              | -              |
| - General and administrative items | -              | -              |
| <b>Adjusted EBITDA</b>             | <b>4,445</b>   | <b>5,504</b>   |

## QUARTERLY SELECTED FINANCIAL INFORMATION

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

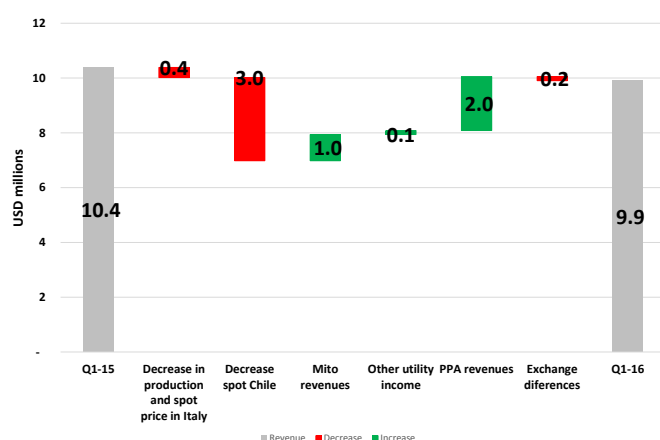
| USD thousands (except per share data)                   | Q1-16   | Q4-15   | Q3-15   | Q2-15    | Q1-15   | Q4-14   | Q3-14  | Q2-14   |
|---|---------|---------|---------|----------|---------|---------|--------|---------|
| Revenue   | 9,903   | 7,088   | 15,913  | 17,060   | 10,387  | 6,368   | 17,129 | 17,764  |
| Net (loss) income                                       | (8,547) | (1,808) | (4,389) | (10,057) | (2,483) | (8,006) | 1,193  | (1,434) |
| Net (loss) income attributable to owners of the company | (7,588) | (1,340) | (3,136) | (9,227)  | (1,614) | (8,014) | 1,255  | (1,423) |
| Basic and diluted (loss) earnings per share             | (0.023) | (0.004) | (0.009) | (0.028)  | (0.005) | (0.025) | 0.004  | (0.005) |

Solar-related production and revenues experience seasonality over the year due to the variability of daily sun hours in the summer months versus the winter months, resulting in lower revenues in the first and fourth quarters each year. In 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.

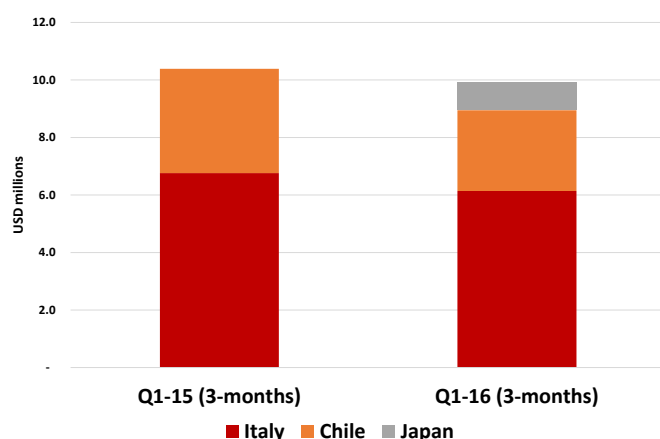
## REVENUE

| USD thousands        | Three months ended |               |
|----------------------|--------------------|---------------|
|                      | Q1-16              | Q1-15         |
| FiT revenue          | 6,452              | 5,804         |
| Market Price revenue | 1,339              | 4,583         |
| PPA revenue          | 1,969              | -             |
| Other utility income | 143                | -             |
| <b>Total revenue</b> | <b>9,903</b>       | <b>10,387</b> |

Revenues decreased by \$0.5 million (5.0%) during Q1-16 compared to the same period of 2015, mainly due to lower than expected Market Price affecting the electricity produced in Italy and Chile, partially offset by addition of production from the Mito project.

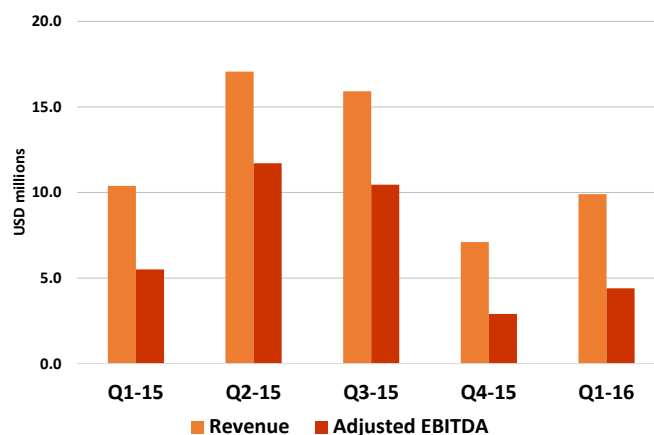


In Q1-16, the Group's revenue from spot market prices represented 14% of the total revenue. In addition, the Group also received \$0.1 million of capacity payment associated with its operations in Chile. The capacity payment is a monthly fixed amount received by Salvador from other energy producers in the spot market.



## ADJUSTED CONSOLIDATED EBITDA

Adjusted consolidated EBITDA decreased by \$1.1 million (19%) during Q1-16 compared to the same period of 2015, mainly as a result of lower than expected Market Price in Italy and Chile, partially offset by addition of production from the Mito project as well as lower 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 |              |
|---------------------------------|--------------------|--------------|
|                                 | Q1-16              | Q1-15        |
| O&M costs                       | 1,004              | 1,062        |
| Purchased power ("Nodal Costs") | 1,141              | -            |
| Personnel costs                 | 376                | 241          |
| D&A                             | 6,011              | 5,490        |
| Property tax                    | 403                | 413          |
| Insurance                       | 167                | 134          |
| Land lease                      | 90                 | 51           |
| Transmission costs              | 174                | 318          |
| Other expenses                  | 308                | 299          |
| <b>Total operating expenses</b> | <b>9,674</b>       | <b>8,008</b> |

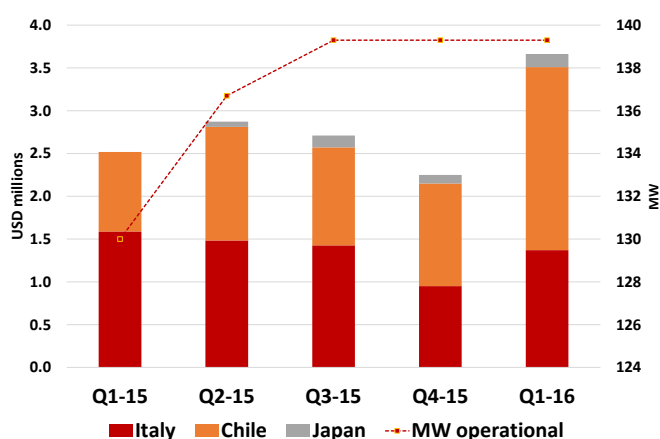
Operating expenses increased by \$0.5 million (8%) during Q1-16, compared to the same period of 2015 primarily due to the incremental depreciation expense and cost associated with the O&M contracts of the Mito project. This was partially offset by the change in the O&M costs for the Italian and Chilean subsidiaries. During 2015, Etrion re-negotiated the O&M contracts of its Italian and Chilean projects in order to reduce associated costs by approximately 35% on average.

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 months ended March 31, 2016, the average Nodal Costs were approximately \$0.057 per kWh. This 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 costs incurred during Q1-16, relate to 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 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 |              |
|--------------------------------|--------------------|--------------|
|                                | Q1-16              | Q1-15        |
| Salaries and benefits          | 656                | 884          |
| Board of directors fees        | 37                 | 90           |
| Share-based payments           | 243                | 224          |
| Professional fees              | 529                | 634          |
| Listing and marketing          | 74                 | 128          |
| D&A                            | 54                 | 82           |
| Office lease                   | 114                | 83           |
| Office, travel and other       | 170                | 299          |
| <b>Total general and admin</b> | <b>1,877</b>       | <b>2,424</b> |

General and administrative expenses decreased by \$0.5 million (23%) during Q1-16, 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.

## NET FINANCE COSTS

| USD thousands           | Three months ended |              |
|-------------------------|--------------------|--------------|
|                         | Q1-16              | Q1-15        |
| Interest project loans  | 5,394              | 6,468        |
| Interest corporate bond | 2,194              | 2,207        |
| Fair value movements    | 830                | 77           |
| Foreign exchange gain   | (378)              | (6,302)      |
| Other finance costs     | 114                | 156          |
| <b>Net finance cost</b> | <b>8,154</b>       | <b>2,606</b> |

Finance costs significantly increased by \$5.5 million during Q1-16 compared to 2015, primarily due to a decrease 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 \$1.1 million (13%) due to the reduction of finance costs in Italy following the refinancing transaction completed in December 2015.

During Q1-16, the Group capitalized \$0.1 million (2014: \$0.5 million) of borrowing costs associated with credit facilities obtained to finance the construction of Shizukuishi.

## INCOME TAX EXPENSE

| USD thousands                  | Three months ended |            |
|--------------------------------|--------------------|------------|
|                                | Q1-16              | Q1-15      |
| Current income tax             | 54                 | 1,190      |
| Deferred income tax            | 1,173              | (999)      |
| <b>Net income tax recovery</b> | <b>1,227</b>       | <b>191</b> |

Net income tax recovery increased significantly by \$1.0 million during Q1-16, compared to the same period of 2015. This net increase in the tax recovery is due mainly due to additional taxable losses and associated tax benefits generated during Q1-16 compared to the same period in 2015, as a result of lower Market Price in Italy and Chile. Net income tax recovery also includes \$0.4 million of corporate income tax expense associated with the management service entities of the Group.



## FINANCIAL POSITION

### LIQUIDITY AND FINANCING

#### CASH POSITION

| USD thousands                          | March 31<br>2016 | December 31<br>2015 |
|--|------------------|---------------------|
| Cash and cash equivalents:             |                  |                     |
| Unrestricted at parent level           | 14,106           | 17,582              |
| Restricted at project level            | 40,346           | 34,917              |
| <b>Total cash and cash equivalents</b> | <b>54,452</b>    | <b>52,499</b>       |

#### UNRESTRICTED CASH ANALYSIS

The Group's cash and cash equivalents at March 31, 2016, included unrestricted cash of \$14.1 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                | March 31<br>2016 | December 31<br>2015 |
|------------------------------|------------------|---------------------|
| Italy                        | 13,604           | 6,585               |
| Chile                        | 17,629           | 19,474              |
| Japan                        | 9,113            | 8,858               |
| <b>Total restricted cash</b> | <b>40,346</b>    | <b>34,917</b>       |

The Group's cash and cash equivalents at March 31, 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 March 31, 2016, the Group had working capital of \$21.7 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 \$25.7 million. (December 31, 2015: \$4.7 million). There have been no significant changes to the Group's contractual obligations as outlined in the Company's MD&A for the year ended December 31, 2015. All of the contractual obligations will be funded from existing cash available, debt restructuring or future cash flows from operations with no additional capital investments to be made by the Group.

#### NET EQUITY

During Q1-16, the Group's total equity decreased by \$15.4 million from a net asset position of \$7.0 million at December 31, 2015, to a net liability position of \$8.4 million at March 31, 2016. This change was primarily due to the net loss reported by the Group during the period, unrealized fair value losses recognized within other reserves associated with the Group's derivative financial instruments and the cumulative translation adjustment. The Group's total equity at March 31, 2016, was negatively impacted by the cumulative fair value losses of \$45.8 million recognized within other reserves that are associated with the Group's derivative financial instruments and that are not expected to be fully realized. Excluding these fair value losses, the Group's total equity at March 31, 2016, would have been \$37.4 million.

## BORROWINGS

### Non-recourse project loans

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

| USD thousands |              |                    | March 31<br>2016 | December 31<br>2015 |
|---------------|--------------|--------------------|------------------|---------------------|
|               | MW           | Maturity           |                  |                     |
| Etrion SpA    | 53.7         | December 31, 2029  | 234,733          | 222,990             |
| Helios ITA    | 6.4          | September 30, 2024 | 27,630           | 26,250              |
| Salvador      | 70.0         | September 1, 2033  | 153,248          | 153,231             |
| Shizukuishi   | 24.7         | September 30, 2032 | 21,496           | 19,952              |
| Mito          | 9.3          | December 30, 2032  | 25,444           | 23,578              |
| <b>Total</b>  | <b>164.0</b> |                    | <b>462,551</b>   | <b>446,001</b>      |

### Italian projects

On March 22, 2016, the Group's Italian subsidiary, Helios ITA, received a waiver from the project finance banks of certain provisions of the senior credit facility agreement regarding the calculation of financial ratios and covenant obligations. As a result, the Helios ITA total debt outstanding is not considered to be immediately repayable and has been classified as non-current. All the Italian non-recourse projects loans are hedged through interest rate swap contracts, all of which qualified for hedge accounting at March 31, 2016, and December 31, 2015.

At March 31, 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 March 31, 2016, the Group had no undrawn amounts associated with these facilities, except for the new debt service reserve facility. At March 31, 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 March 31, 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

The Group's Japanese subsidiaries that hold the 34 MW Mito and Shizukuishi projects entered into senior secured financing agreements in Japanese yen to finance the construction costs of these projects. The Mito and Shizukuishi credit facilities mature in 2034 and bear TIBOR floating interest rates plus a margin of 1.3% and 1.4%, respectively, during the construction period of the solar plants.

The Mito and Shizukuishi non-recourse projects loans are 90% hedged during the operational period at an interest rate of 2.96% and 3.13% all-in, respectively, through interest rate swap

contracts, all of which qualified for hedge accounting at March 31, 2016, and December 31, 2015.

At March 31, 2016, the fair value of the non-recourse project loans approximated their carrying values as the loans bear floating interest rates.

During the three months ended March 31, 2016, the Group's Japanese subsidiaries did not draw additional resources from the senior financing agreement (2015: ¥800 million) or the VAT credit facility (2015: ¥100 million). As of March 31, 2016, the undrawn gross amount of the senior and VAT credit facility was ¥4,724 million (2015: ¥7,844 million) and ¥299 million (2015: ¥501 million), respectively.

At March 31, 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 March 31, 2016 and December 31, 2015, the Group had €80 million of corporate bonds outstanding listed in the Norwegian bond market. 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 March 31, 2016, including accrued interest net of transaction costs, was \$92.9 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 March 31, 2016, and December 31, 2015, the Group was not in breach of any of the imposed operational and financial covenants associated with its corporate borrowings.

The corporate bond agreement includes a call option that allows the Company to redeem the bond early (in its entirety) at any time at a specified percentage over the par value. The Company can call the bonds after the second year at 4% above par value, after the third year at 2.5% above par value and after the fourth year at 1% above par value. At March 31, 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                         | March 31<br>2016 | December 31<br>2015 |
|---------------------------------------|------------------|---------------------|
| <b>Total borrowings as per IFRS</b>   | <b>555,508</b>   | <b>555,060</b>      |
| VAT facilities                        | (2,657)          | (2,481)             |
| Accrued interest                      | (4,851)          | (2,231)             |
| Transaction costs                     | 13,384           | 13,180              |
| <b>Adjusted borrowings</b>            | <b>561,384</b>   | <b>541,528</b>      |
| Cash and cash equivalents             | (54,452)         | (52,499)            |
| <b>Adjusted consolidated net debt</b> | <b>506,932</b>   | <b>489,029</b>      |
| <b>Adjusted corporate net debt</b>    | <b>76,974</b>    | <b>69,514</b>       |

The Group's consolidated net debt increased during the three months ended March 31, 2016, in comparison with December 31, 2015, mainly due to foreign exchange differences driven by the recovery of the Euro against the US dollar during the period.

## OUTSTANDING SHARE DATA

At the date of this MD&A, the Company had 334,094,324 common shares (May 5, 2015: 334,082,657) and options to acquire 3,202,000 common shares of the Company (May 18, 2015: 4,800,000) 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 restricted share units ("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 16,205,816 RSUs granted to certain employees of the Company under this long-term incentive plan, all of which were outstanding as of May 11, 2016.

## OFF-BALANCE SHEET ARRANGEMENTS

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

## CAPITAL INVESTMENTS

The Group plans to allocate its unrestricted cash by prioritizing the Japanese market. Based on the current status 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 \$0.6 million per MW, representing 20% 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         | H1-2016  | H2-2016    | H1-2017    | H2-2017    |
|--------------------------|----------|------------|------------|------------|
| Komatsu                  | -        | 0.5        | 3.3        | -          |
| Kumamoto                 | -        | -          | 1.6        | 4.5        |
| Aomori                   | -        | 0.5        | 0.7        | -          |
| <b>Total USD million</b> | <b>-</b> | <b>1.0</b> | <b>5.7</b> | <b>4.5</b> |

The Group will finance the development and/or construction costs associated with its projects under development, as well as new projects, with a combination of cash and cash equivalents, additional corporate debt or equity financing and non-recourse project loans, as required. Changes in the estimated net equity needs compared to the previously disclosed values is due to changes in the US versus Japanese yen exchange rate and timing of the investments.

During the three months ended March 31, 2016, general and administrative expenses of \$0.8 million (2015: \$0.3 million) representing internally-generated costs (\$0.5 million) and third-party costs (\$0.3 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 EPC agreements with large international contractors that design, construct, operate and maintain utility-scale solar photovoltaic power plants. As of March 31, 2016, the Group had a contractual obligation to acquire construction services in the amount of \$33.9 million related to the construction of the 25 MW Shizukuishi solar power project in Japan. This contractual obligation will be funded from existing cash available at the project company level or from future cash flows from operations with no additional capital investments to be made by the Group or additional funding from the Group's unrestricted cash balance.

## Contingencies

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

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

There has been no change to the critical accounting estimates and assumptions used in the preparation of the Company's condensed consolidated interim financial statements for the three months ended March 31, 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 March 31, 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 March 31, 2016, are summarized below.

## RELATED PARTY TRANSACTIONS

### Lundin Services BV

The Group receives professional services from Lundin Services BV, a wholly-owned subsidiary of Lundin Petroleum AB. During the three months ended March 31, 2016, the Group incurred general and administrative expenses of \$10,000 (2015: \$22,000), from Lundin Services BV and Lundin Petroleum AB, and, at March 31, 2016, the Group had \$2,000 (December 31, 2015: \$22,000) outstanding in relation to these expenses.

### Lundin family

Investment companies associated with the Lundin family subscribed for €15 million of the corporate bond issue in April 2014. At March 31, 2016, total corporate bonds held by the Lundin family amounted to €9.9 million.

During Q1-16, the Group recognized \$0.2 million (2015: \$0.2 million) of interest expense and \$11,000 (2015: \$10,000) of transaction costs associated with the portion of the corporate bonds held by investment companies associated with the Lundin family.

## KEY MANAGEMENT PERSONNEL

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

During Q1-16, the Group recognized \$0.5 million (2015: \$0.6 million) within general and administrative expenses associated with the remuneration of key management personnel, related to salaries and short-term benefits, pension costs, fees paid to the Board of Directors and share-based payment expenses. At March 31, 2016, the Group had \$38,000 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:

|   | March 31<br>2016 | December 31<br>2015 |
|---|------------------|---------------------|
| <b>USD thousands</b>                          |                  |                     |
| <b>Derivative financial assets:</b>           |                  |                     |
| Interest rate swap contracts                  |                  |                     |
| Current portion                               | -                | 702                 |
| <b>Total derivative financial assets</b>      | <b>-</b>         | <b>702</b>          |
| <b>Derivative financial liabilities:</b>      |                  |                     |
| Interest rate swap contracts                  |                  |                     |
| Current portion                               | 4,038            | 3,230               |
| Non-current portion                           | 21,058           | 10,639              |
| <b>Total derivative financial instruments</b> | <b>25,096</b>    | <b>13,869</b>       |

The Group enters into interest rate swap contracts in order to hedge against the risk of variations in the Group's cash flows as a result of floating interest rates on its non-recourse project loans in 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 months ended March 31, 2016, the Group recognized a net fair value loss of \$7.4 million (2015: net fair value loss of \$0.9 million) 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.

At March 31, 2016, and December 31, 2015 all of the Group's derivative financial instruments qualified for hedge accounting with fair value movements accounted for within equity, except for the ineffective portion that is transferred to finance income and costs.

## RISKS AND UNCERTAINTIES

The Group's activities expose it to a variety of financial and non-financial risks and uncertainties that could have a material impact on the Group's long-term performance and could cause actual results to differ materially from expected and historical results. 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. One of the major assumptions for revenue for Project Salvador in Chile is the PPA price of US\$0.10 per kWh for the first 70 GWh of production and associated Nodal Cost of US\$0.037 per kWh. Given the higher than expected average Nodal Costs during Q1-16 of US\$0.057 per kWh, management is currently assessing if this trend is expected to continue for the full year 2016. Based on this review, the Company will 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, assumptions with respect to the renegotiation of certain of the Company's O&M contracts 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](http://www.sedar.com). Actual results, performance or achievements could differ materially from those expressed in, or implied by, such forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits will be derived therefrom. Investors should not place undue reliance on forward-looking information. Except as required by law, Etrion does not intend to update or revise any forward-looking information, whether as a result of new information, future events or otherwise. The information contained in this MD&A is expressly qualified by this cautionary statement.

## **ADDITIONAL INFORMATION**

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