

The Etrion logo is a red horizontal bar with the word "etrion" in white lowercase letters.

etrion

The background image is a wide-angle photograph of a vast solar farm. Rows of dark blue photovoltaic panels are laid out in neat, parallel lines across a flat, arid landscape. In the distance, a range of low mountains is visible under a clear blue sky with a few wispy clouds. The perspective is from a low angle, looking down the rows of panels towards the horizon.

# Etrion Corporation

Annual Report 2014

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# This is Etrion

Etrion is an independent power producer that develops, builds, owns and operates utility-scale solar power generation plants. The company owns 130 MW of installed solar capacity in Italy and Chile. Etrion also has 34 MW of solar projects under construction in Japan and is actively developing greenfield solar power projects in Japan and Chile.

Etrion focuses on markets with high electricity prices, robust energy demand and abundant renewable resources, or strong government incentives, where the Company can enter into long-term power purchase agreements with industrial clients or benefit from clear government policies that encourage solar power.









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*We are more than doubling our annual energy production to nearly 300 million kilowatt-hours in 2015. Etrion is now well-positioned in three key regions – Asia, Europe and the Americas – to expand, diversify and achieve sustainable growth.*

**Marco A. Northland**  
CEO and Director

Dear Shareholders,

2014 was another transformational year for Etrion as we reached several milestones in Chile and Japan.

Etrion today has 130 megawatts (“MW”) of solar parks operational in Italy and Chile plus 34 MW under construction in Japan. We have a large pipeline of greenfield development projects in both Chile and Japan, and we continue to review new markets for expansion.

We are more than doubling our annual energy production to approximately 300 million kilowatt-hours (“kWh”) in 2015.

### *Italy*

Our 100%-owned 60 MW portfolio of solar photovoltaic (“PV”) projects in Italy generated more than 100 million kWh of electricity in 2014 with average plant availability of 99.7%, well above the industry standard.

We suffered from regulatory changes to the Italian solar feed-in-tariff (“FIT”), resulting in an overall reduction to our Italian revenues going forward of approximately 6%. However, we are challenging the FIT reduction with domestic litigation against the government, and we are optimizing costs to reduce the impact of this setback.

We recently benefited from the removal of the so-called “Robin Hood” tax by the Italian Constitution Court, which reduces our corporate tax rate in Italy from 34% to 27.5%. In addition, we have renegotiated the operations and maintenance (“O&M”) contracts for several of our Italian solar parks, securing a higher level of service while significantly reducing costs. We are also evaluating a refinancing of the Italian portfolio to substantially lower interest expenses on the non-recourse project finance loans.

### *Chile*

Chile is one of the first places where solar has proven to be competitive with traditional sources of energy. The Atacama desert in northern Chile has some of the highest solar irradiation levels in the world and has strong energy demand from the mining industry. The electricity market in Chile is fully deregulated and offers the opportunity to secure US dollar-denominated power contracts with industrial clients. Furthermore, Chile has an investment grade rating and a liquid project finance market.

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In 2014, we completed our 70%-owned 70 MW Salvador solar park ("Project Salvador") in Chile ahead of schedule and under budget. Project Salvador is Etrion's first project completed in the Americas and almost doubled our installed capacity in 2014. The Salvador solar park is expected to produce more than 200 million kWh per year, enough to supply electricity to more than 70,000 households in Chile. Project Salvador was financed 70% by non-recourse project debt using Green Bonds from the Overseas Private Investment Corporation ("OPIC"), the U.S. Government's development finance institution. The Salvador solar park is now operating based on spot market ("merchant") revenues, and we are on track to sign a 15-year power purchase agreement ("PPA") for 35% of the production to reduce the volatility of the revenues starting in January 2016.

In addition to Project Salvador, we have an advanced development pipeline of 99 MW in Chile and are negotiating additional PPAs with mining companies.

#### *Japan*

Etrion has partnered with Hitachi High-Technologies Corporation ("HHT"), a subsidiary of Hitachi, Ltd., to develop greenfield solar power projects in Japan, one of the largest and fastest-growing solar markets today. Japan is a relatively low-risk jurisdiction with an attractive solar FiT program and low financing costs. 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 dependence on nuclear power.

In 2014, we were one of the first foreign solar developers in Japan to close project financing on a non-recourse basis with the financing of the 87% owned Mito and Shizukuishi projects by Sumitomo Mitsui Trust Bank, Limited. In October, we began construction of these projects with HHT as the engineering, procurement and construction ("EPC") contractor. Mito and Shizukuishi have a combined total capacity of 34 MW and are expected to be completed in 2015 and 2016, respectively.

In partnership with HHT, we are developing a pipeline of solar projects in Japan that is expected to reach at least 100 MW under construction or shovel-ready by Q1-2016 and a total of 300 MW by the end of 2017.

#### Future Growth

We continue to focus on markets with high electricity prices, robust energy demand and abundant renewable resources, or strong government incentives, where we can enter into long-term PPAs with industrial clients or benefit from clear government policies that encourage solar power.

We believe Etrion is now well-positioned in three key regions – Asia, Europe and the Americas – to expand, diversify and achieve sustainable growth. While challenges remain in our effort to build a global power generation platform, we plan to continue executing on our vision to build, own and operate renewable energy power plants at the lowest cost per kWh.

Thank you for your support.

Kind regards,

*"Marco A. Northland"*

Marco A. Northland, CEO and Director



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

YEAR ENDED DECEMBER 31, 2014

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## INTRODUCTION

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 environments. This MD&A, prepared as of March 18, 2015, should be read in conjunction with the Company's consolidated financial statements and accompanying notes for the year ended December 31, 2014. Financial information is reported in United States ("US") dollars ("\$"). However, as the Group operates in Europe, the Americas and Asia, certain financial information has also been reported in Euros ("€"), Swedish krona ("SEK"), Canadian dollars ("CAD\$") and Japanese yen ("¥"). At December 31, 2014, the €/ \$ exchange rate was 1.21 (2013: 1.38), and the average €/ \$ exchange rate for the year then ended was 1.32 (2013: 1.32). 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

The terms "adjusted net income/loss before non-recurring and non-cash items", earnings before interest, tax, depreciation and amortization ("EBITDA"), "adjusted EBITDA", and "adjusted operating cash flow" are 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 over all periods presented. Adjusted net income/loss before non-recurring and non-cash items 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 15). 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 such as value added taxes paid during construction of the Company's solar power plants and are viewed as not directly related to a company's operating performance.

### Forward-Looking Statements

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 within. For information on material risk factors and assumptions underlying the forward-looking information, refer to the "Cautionary Statement Regarding Forward-Looking Information" on page 37.

## FOURTH QUARTER AND FULL YEAR 2014 HIGHLIGHTS

	Three months ended December 31		Twelve months ended December 31	
	2014	2013	2014	2013
<i>all numbers in thousands USD</i>				
Revenue	6,368	7,761	49,628	53,911
Gross profit	4,318	319	25,862	25,431
EBITDA	1,305	5,438	32,526	40,372
Adjusted EBITDA	1,040	1,423	33,065	36,357
Adjusted EBITDA margin (%)	16%	18%	67%	67%
Net loss	(8,006)	(5,666)	(16,455)	(10,304)
Adjusted net (loss)/income before non-recurring and non-cash items	(6,534)	(5,279)	4,396	6,154
Adjusted operating cash flow	(3,653)	1,710	31,565	37,332
Working capital	36,450	47,461	36,450	47,461



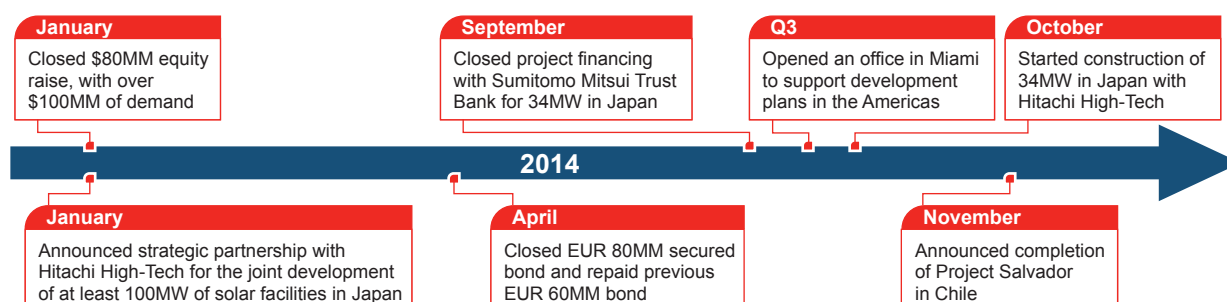
## Operational Highlights

- **Development:** Advanced the development of four solar projects in Chile for a total capacity of 99 megawatts ("MW"), most of which are shovel-ready with construction planned immediately following the signing of the related power purchase agreement ("PPA"). Etrion also began the development of two new sites in Japan of 14 MW and 25 MW, both with the confirmed feed-in-tariff ("FiT") and targeted to be shovel-ready by Q1-2016.
- **Chile Construction:** Completed construction of the 70%-owned 70 MW Salvador solar park in northern Chile ("Project Salvador") five months ahead of schedule and under budget. The solar park was built by SunPower Corp. ("SunPower") and was connected to the electricity grid on November 3, 2014. Project Salvador produced approximately 6.7 million kilowatt-hours ("kWh") of electricity during the testing phase in 2014 and became fully operational in January 2015. The solar park is expected to produce more than 200 million kWh per year.
- **Japan Construction:** Started construction of the 87%-owned 34 MW solar parks in Japan in partnership with Hitachi High-Technologies Corporation ("HHT"), a subsidiary of Hitachi, Ltd. The 9.3 MW Mito and the 24.7 MW Shizukuishi power plants are being built by HHT. Mito includes five sites that are expected to connect to the grid between May and August 2015. Shizukuishi includes one site that is expected to connect to the grid in July 2016.
- **O&M Renegotiation:** Renegotiated the operating and maintenance ("O&M") agreements with SunPower for three of the Group's Italian subsidiaries (Cassiopea, Centauro and SVE, representing an aggregate capacity of 35.8 MW) to increase the level of service and to reduce costs by approximately 40% effective June 2015.
- **Production:** Produced 100.7 million (2013: 104.9 million) kWh of solar electricity during the year ended December 31, 2014, from the Company's 100%-owned 60 MW portfolio comprising 17 solar power plants in Italy.

- **Plant Availability:** Improved asset management in Italy with weighted average solar plant availability of 99.7% in 2014 compared to 99.5% in 2013. A solar park's availability measures the amount of time it is able to generate power during daylight hours.

## Financial Highlights

- **Revenue:** Generated revenues of \$49.6 million (2013: \$53.9 million) during the year ended December 31, 2014, from 17 solar power plants in Italy.
- **EBITDA:** Recognized earnings before interest, taxes, depreciation and amortization ("EBITDA") of \$32.5 million (2013: \$40.3 million) during the year ended December 31, 2014.
- **Cash and Working Capital:** Closed 2014 with a cash balance of \$95.3 million (December 2013: \$94.9 million), \$33.9 million of which was unrestricted and held at the parent level, and working capital of \$36.5 million (December 2013: \$47.5 million).
- **Project Financing:** Secured long-term, non-recourse project financing in September 2014 for 80% of the construction costs of the 9.3 MW Mito and 24.7 MW Shizukuishi power plants from Sumitomo Mitsui Trust Bank, Limited ("SMTB"), a Japanese financial institution, for a total amount of ¥9,854 million (\$82.0 million).
- **Equity Financing:** Completed an equity financing in January 2014 through a private placement of 124,633,571 new common shares issued at SEK 4.15 (approximately CAD\$0.70) per share for gross proceeds of SEK 517,229,320 (approximately \$80.0 million).
- **Bond Refinancing:** Completed a bond issue in April 2014 of €80 million in senior secured bonds in the Norwegian bond market at 8% annual interest with a 5-year maturity, a portion of which was used to redeem the previously-issued €60 million of corporate bonds.



## BUSINESS OVERVIEW

### Business Overview

Etrion is an independent power producer that develops, builds, owns and operates utility-scale power generation plants. The Company owns 130 MW of installed solar capacity in Italy and Chile. Etrion has 34 MW of solar projects under construction in Japan and is also actively developing greenfield solar power projects 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 expected 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 corporate bonds listed on the Oslo stock exchange in Norway. Etrion is based in Geneva, Switzerland with offices in Miami, USA; Rome, Italy; Tokyo, Japan and Santiago, Chile. The Company has 36 employees as of the date of this MD&A.

### Operations Review

#### OPERATING PERFORMANCE

During 2014, the Group recognized revenues from seven solar power projects in Italy (Cassiopea, Helios ITA-3, Centauro, Helios ITA, Etrion Lazio, SVE and Sagittario), comprising 17 solar power plants. Solar-related revenues are subject to seasonality over the year due to the variability of daily sun hours in the summer versus winter months. However, on an annual basis, expected solar irradiation in Italy varies less than 10% year-over-year. The impact of seasonality on the Group's business is expected to decrease over time as the Group secures additional projects in Chile, which will give the Company production in both the northern and southern hemispheres. Actual production based on megawatt-hours ("MWh") of electricity produced and revenue for the year ended December 31, 2014, compared to the same period of 2013 are as follows:

	Performance against prior year			
	2014	2013	Variance	
Production (MWh)	100,655	104,918	(4,263)	(4.1)%
Revenue (\$'000)	49,639	53,911	(4,272)	(7.9)%

During 2014, the Group produced 4.1% less electricity compared to the same period of 2013, due primarily to lower solar irradiation. The Group's revenues were impacted also by a reduction in the spot market price ("Market Price") in Italy.

Pricing information for the year ended December 31, 2014, compared to the same period of 2013 is as follows:

	2014			2013		
	MWh	Price (\$/kWh)	Revenue \$'000	MWh	Price (\$/kWh)	Revenue \$'000
FiT revenues (based on actual production)	100,655	0.44	44,142	104,918	0.44	45,922
Market Price revenues (based on evacuated production)	98,686	0.06	5,497	103,001	0.08	7,989
<b>Total revenue</b>			<b>49,639</b>			<b>53,911</b>

In Italy, the Group receives revenues denominated in Euros from two sources: (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 government and (2) the Market Price, whereby the spot market price is also received for each kWh of electricity evacuated (i.e., electricity produced less transmission losses). The average Market Price declined by approximately 33%, as the Group received an average of €0.04 per kWh during 2014, compared to €0.06 per kWh during 2013. Revenues from Italy received in Euros have been translated at the average €/€ exchange rate of 1.32 for the twelve months ended December 31, 2014 (2013: 1.32).

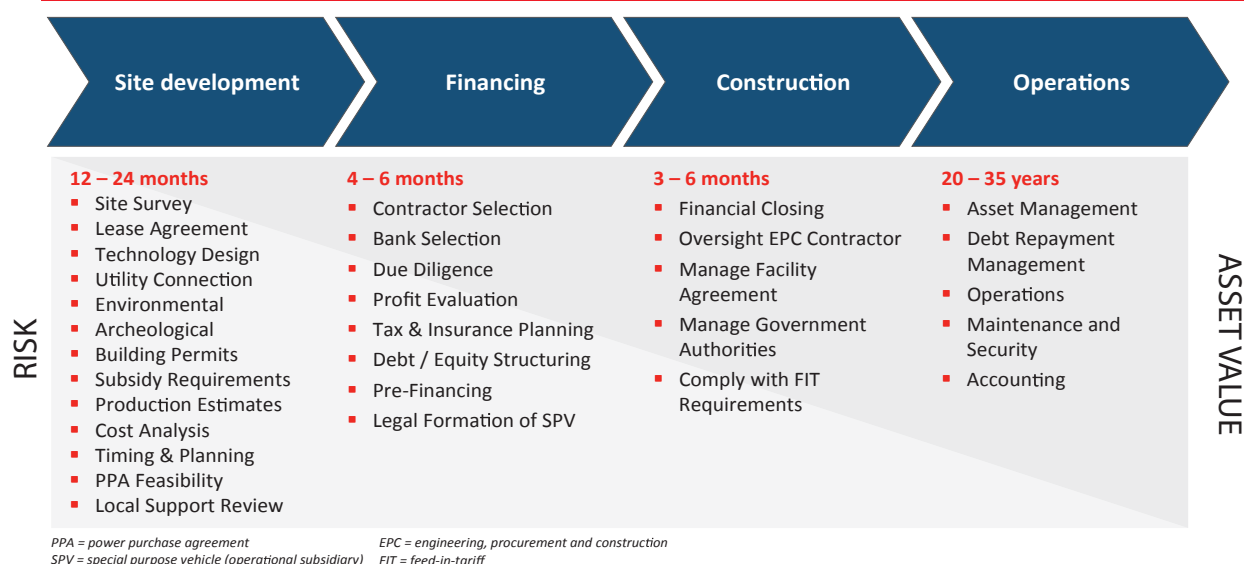
The development of a solar power plant can be described as going through four different phases: (1) site development, (2) project financing, (3) construction and (4) operations.

- **Phase 1** represents the period in which a project secures all required permits, authorizations and utility interconnection agreements to build a solar power plant. Depending on the jurisdiction, this process may vary in length between 12 to 24 months. Where projects are developed from their infancy ("greenfield" projects), the development time will generally be close to 2 years. However, Etrion often enters into co-development agreements with local development companies to reduce development time and risk. The Company may also acquire permits at advanced stages from local developers to further reduce the time to market. In all cases, whether the projects in the pipeline are greenfield, co-development or acquired, they go through a rigorous development process to de-risk the projects before any investments are made. In addition to evaluating permitting risk, Etrion works extensively to optimize the design and reduce construction costs to further improve each project's economics.
- **Phase 2**, which generally takes 4 to 6 months, during which the Company assesses and selects various contractors and lenders, including EPCs contractors responsible for the engineering, procurement and construction ("EPC") of the solar power plant. The Company analyses the financial aspects of the project, assessing tenor, debt/equity structuring, cost and the selection of lenders. Furthermore, in phase 2, the

Company evaluates potential legal structure of the special purpose vehicle that will function as the local operating subsidiary. This process may be shortened when the projects are financed directly by the Company and then refinanced once construction and grid connection is complete.

- **Phase 3** generally requires 6 to 12 months of work. During this phase, the Company enters into an EPC contract, and the projects are built with a view to ensuring that the local operating subsidiary complies with the FiT or PPA requirements. Under an EPC contract, the contractor is generally hired on a turn-key fixed-price basis and is required to, at its own risk, design the installation for the project, procure the necessary materials and construct the project by a certain date. As a result, the contractor generally bears a portion of the risk for scheduling as well as budgeting in return for a guaranteed fixed price.
- **Phase 4**, which typically lasts for a minimum period of 20 years, involves the Company's local operating subsidiary being engaged in the operation of the solar power plant and the repayment of existing debt facilities established in connection with the project. In this phase, the Company usually retains the EPC contractor to also provide operations and maintenance services based on a 20-year fixed price contract that usually includes all preventive and corrective maintenance.

### Business Process – Solar Energy





### OPERATING PROJECTS ITALY

A summary of the Group's 100%-owned operating solar power projects in Italy is as follows:

Project	Region	Sites	Net Capacity (MW)	Technology	Contractor <sup>(3)</sup>	Modules	Inverters	Connection date	Original FiT <sup>(1)</sup>	Revised FiT <sup>(1)</sup>
Cassiopea (Montalto)	Lazio	1	24.0	Single axis	SunPower	SunPower	SMA	Nov-09	€0.353	€0.325
Helios ITA-3 (Brindisi, Mesagne)	Puglia	2	10.0	Single axis	ABB	Yingli	Bonfiglioli	Aug-11	€0.250	€0.230
Centauro (Montalto)	Lazio	1	8.8	Single axis	SunPower	SunPower	SMA	Jul-10	€0.346	€0.318
Helios ITA (Brindisi, Mesagne) <sup>(2)</sup>	Puglia	7	6.4	Single axis	Solon/ABB	Solon	Santerno	Dec-09	€0.353	€0.325
Etrion Lazio (Borgo Piave, Rio Martino)	Lazio	2	5.3	Fixed-tilt	Phoenix	Trina	SMA	Apr-11	€0.346	€0.318
SVE (Oria, Martino, Ruffano)	Puglia	3	3.0	Single axis	SunPower	SunPower	Siemens	Dec-10	€0.346	€0.318
Sagittario (Nettuno)	Lazio	1	2.6	Fixed-tilt	Phoenix	Trina	SMA	Aug-11	€0.250	€0.230
<b>Total</b>		<b>17</b>	<b>60.1</b>							

Notes:

(1) FiT per kWh based on connection date. The weighted average remaining contract life is approximately 16 years. Refer also to "Business Review – Solar Market Overview" on pages 10 and 11 for an overview of the renewable energy market in Italy. The FiT applicable to each of the Group's Italian projects was revised in 2014, effective from January 1, 2015.

(2) Six of the Helios ITA solar parks benefit from the 2009 FiT of €0.353 per kWh, and the seventh park built benefits from the 2010 FiT of €0.346 per kWh.

(3) All projects used one third-party contractor for both EPC and O&M except Helios ITA, which used Solon for EPC and ABB for O&M.

#### 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 inverters. Cassiopea has an O&M contract with SunPower. During the first quarter of 2015, Etrion renegotiated the O&M contract effective June 2015 to reduce the annual fee by more than 40% and to eliminate the previous revenue sharing provision. During 2014, the solar park benefited from the 2009 FiT of €0.353 per kWh plus the average Market Price of approximately €0.04 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. Etrion is planning to renegotiate the O&M contract with the purpose of improving the service terms while lowering the cost. During the 2014, both solar parks benefited from the August 2011 FiT of €0.25 per kWh plus the average Market Price of approximately €0.04 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 the first quarter of 2015, Etrion renegotiated the O&M contract effective June 2015 to reduce the annual fee by more than 40% and to eliminate the previous revenue sharing provision. During 2014, the solar park benefited from the 2010 FiT of €0.346 per kWh plus the average Market Price of approximately €0.04 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. Etrion is planning to renegotiate the O&M with the purpose of improving the service terms while lowering the cost. As at December 31, 2014, Helios ITA did not reach the minimum historical debt service coverage ratio and as a result, according to the terms of the credit facility agreement, this subsidiary was deemed to be in



Montalto, Lazio, Italy - 8.8 MW Centauro



Etrion assets in Italy

breach of covenants. However, on February 24, 2015, Helios ITA received a waiver from its lender banks.

During 2014, six of the Helios ITA solar parks, just under 1 MW each for a total of 5.8 MW, benefited from the 2009 FiT of €0.353 per kWh plus the average Market Price of approximately €0.04 per kWh. The last park built (0.6 MW) benefited from the 2010 FiT of €0.346 per kWh plus the average Market Price of approximately €0.04 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 Phoenix. During 2014, both solar parks benefited from the 2010 FiT of €0.346 per kWh plus the average Market Price of approximately €0.04 per kWh.

### *SVE*

The SVE project in Puglia, Italy, consists of three ground-mounted solar PV parks: Oria (1 MW), Martino (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 the first quarter of 2015, Etrion renegotiated the O&M contract effective June 2015 to reduce the annual fee by more than 15%. During 2014, all three solar parks benefited from the 2010 FiT of €0.346 per kWh plus the average Market Price of approximately €0.04 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 Phoenix. During 2014, the solar park benefited from the August 2011 FiT of €0.25 per kWh plus the average Market Price of approximately €0.04 per kWh.

## BUSINESS OVERVIEW - Operating Project Chile

### OPERATING PROJECTS CHILE

A summary of the Group's operating solar power projects in Chile, as of the date of this MD&A, is as follows:

Project	Region	Sites	Gross Capacity (MW)	Net Capacity (MW)	Technology	Contractor	Modules	Inverters	Connection date	Contract regime
Salvador <sup>(1)</sup>	Atacama	1	70	49	Single axis	SunPower	SunPower	ABB	Nov-14 <sup>(2)</sup>	Merchant/PPA <sup>(3)</sup>
<b>Total</b>		<b>1</b>	<b>70</b>	<b>49</b>						

Notes:

(1) Etrion currently owns 70% of Project Salvador. Following payback of the original equity contribution of approximately \$42 million, Etrion's ownership will decrease to 50.01%. After 20 years of operation, Etrion's ownership will decrease to 0%.

(2) Project Salvador was connected to the electricity grid on November 3, 2014.

(3) Project Salvador is operating on a merchant basis, but Etrion expects to enter into a 15-year PPA for 35% of the production starting from January 1, 2016.

### 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 is currently operating on a merchant basis where the electricity produced is sold on the spot market and delivered to the Sistema Interconectado Central ("SIC") electricity network. The solar park produced 6.7 million kWh during its testing period in 2014 and entered full commercial operations on January 10, 2015. In accordance with the Group's accounting policies, revenues during a solar park's testing phase are deducted from capitalized costs. Therefore, Etrion started recognizing revenues from Project Salvador in the income statement in January 2015. Project Salvador recently signed a binding letter of intent to enter a 15-year PPA for approximately 35% of Project Salvador's production from January 1, 2016, at approximately \$0.10 per kWh indexed to the US Consumer Price Index ("CPI"). Project Salvador is expected to produce approximately 200 million kWh of electricity per year.

### Development Activities

#### CHILE

Etrion is pursuing additional renewable energy projects in Latin America, with an initial focus on Chile. Chile has an investment grade rating (AA- per Standard & Poor's), an abundance of renewable resources (i.e., strong solar irradiation), high wholesale electricity prices and robust energy demand from the mining sector, making it one of the first countries to reach grid parity, where solar is competitive with traditional sources of power generation. Etrion's business development activities in Chile are focused on solar power generation that is carried along two of the existing electricity networks, Sistema Interconectado del Norte Grande ("SING") and SIC, which provide service to industrial users who are particularly concerned with electricity shortages as a result of the high growth in energy demand. Together the SING and SIC account for approximately 99% of Chile's total electricity production. Northern Chile has among the highest solar irradiation in the world. Refer to "Business Review – Solar Market Overview" on page 12 for an overview of the renewable energy market in Chile.

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

Project	Region	Sites	Net Capacity (MW)	Technology	Contractor	Modules	Status	Expected start of construction <sup>(1)</sup>	Expected start of operations	Contract regime <sup>(2)</sup>
Aguas Blancas 2A	Antofagasta	1	32	Single axis	TBD	TBD	Development	Q2-2016	Q4-2016	Spot/PPA
Aguas Blancas 2B	Antofagasta	1	24	Single axis	TBD	TBD	Development	Q2-2015	Q4-2015	Spot/PPA
Aguas Blancas 2C	Antofagasta	1	16	Single axis	TBD	TBD	Development	Q2-2016	Q4-2016	Spot/PPA
Las Luces	Atacama	1	27	Single axis	TBD	TBD	Development	Q2-2016	Q1-2017	Spot/PPA
<b>Total</b>		<b>4</b>	<b>99</b>							

Notes:

(1) Start of construction will depend on Etrion's ability to secure PPAs and long-term, non-recourse project finance.

(2) Contract regime may include a combination of merchant (spot price) and/or PPA.





Atacama, Chile - 70 MW Salvador

In addition to the projects above, Etrion is also pursuing other opportunities in Chile to develop and/or acquire additional renewable energy projects.

#### *Aguas Blancas*

The Aguas Blancas solar projects in the Antofagasta region include three sites, 2A, 2B and 2C, with total capacity of 72 MW in the 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 four months. The environmental impact assessment 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 impact assessment has been received and the mining rights have been secured. The interconnection contract and the PPA with a mining company are under advanced negotiations.

Aguas Blancas 2C is a shovel-ready 16 MW site. The land concession has been signed, the environmental impact assessment 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. The total estimated project cost for the 72 MW, including costs related to the licenses, permits, development, financing and construction, is \$153.5 million, which is expected to be financed 75% by non-recourse project debt with the remaining equity portion to be funded by the Group.

#### *Las Luces*

The Las Luces I solar project in the Atacama region includes one shovel-ready site with 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 advanced negotiations, and the PPA negotiations with a mining company have begun.

Etrion should be in a position to start construction of Las Luces I 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. The total estimated project cost for the 27 MW, including costs related to the licenses, permits, development, financing and construction, is \$57.1 million, which is expected to be financed 75% by non-recourse project debt with the remaining equity portion to be funded by the Group.

### 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 25 gigawatts (“GW”) of installed capacity. 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 projects under construction or shovel-ready by the first quarter of 2016 and 300 MW by the end of 2017. 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). Refer to ‘Business Review – Solar Market Overview’ on page 13 for an overview of the renewable energy market in Japan. A summary of the Group’s projects under construction and development in Japan is below:

Project	Region	Sites	Gross Capacity (MW)	Net Capacity (MW)	Technology	Contractor <sup>(1)</sup>	Modules	Status <sup>(3)</sup>	Start of construction	Expected start of operations	Contract regime <sup>(4)</sup>
Mito	Ibaraki	5	9.3	8.1	Fixed-tilt	HHT	Canadian Solar	Construction	Q4-2014	May-Aug 2015	¥40 FiT
Shizukuishi	Iwate	1	24.7	21.5	Fixed-tilt	HHT	Canadian Solar	Construction	Q4-2014	July 2016 <sup>(2)</sup>	¥40 FiT
Greenfield 1	South	1	25	21	Fixed-tilt	HHT	Canadian Solar	Development	Q1-2016	TBC	¥36 FiT
Greenfield 2	Central	1	14	12	Fixed-tilt	HHT	Canadian Solar	Development	Q1-2016	TBC	¥32 FiT
Brownfield 1	South	1	50	43	Fixed-tilt	HHT	Canadian Solar	Development	Q1-2016	TBC	¥36 FiT
Brownfield 2	North	1	51	43	Fixed-tilt	HHT	Canadian Solar	Development	Q1-2016	TBC	¥32 FiT
<b>Total</b>		<b>10</b>	<b>174.0</b>	<b>148.6</b>							

Notes:

(1) Projects will be built by HHT using Hitachi Power Systems as EPC.

(2) Shizukuishi will connect through a utility that requires up to 29 months for grid connection, but Etrion may be able to accelerate the connection process.

(3) Projects under construction are owned 87% by Etrion. Development projects are assumed to be owned 85% by Etrion.

(4) Contract regime is 20-year FiT.

#### Mito

Mito is a 9.3 MW utility-scale solar photovoltaic power project consisting of five sites under construction in the Ibaraki Prefecture of Japan. Construction began in October 2014, with the estimated connection dates for each site expected between May and August 2015. The solar power plants are being built on an aggregate 27 hectares of leased land, and the facilities will connect through the Tokyo Electric Power Company (“TEPCO”). In December 2014, the project company entered into two of the five planned 20-year PPAs with TEPCO under which the project company will receive ¥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) is being financed 80% through 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%. Mito has entered into a long-term fixed price O&M agreement with HHT. Once operational, Mito is expected to produce approximately 10.3 GWh of solar electricity per year.

#### 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 works began in October 2014, and the solar project is expected to connect to the grid in July 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 GWh of solar electricity per year.



### Development Activities

In addition to the 34 MW already under construction, the joint Etrion-HHT development team is reviewing a large pipeline of opportunities in different stages of development and in different stages of negotiation with third parties. The four most advanced projects total 140 MW. Etrion expects to own up to 85 percent in the Japanese projects, with Hitachi High-Tech and/or local development partners owning the remainder.

Japan Greenfield Project 1 is a 25 MW solar project in southern Japan with the FiT and land contract secured. The grid impact studies are in progress, and the project is expected to be shovel-ready by Q1-2016.

Japan Greenfield Project 2 is a 14 MW solar project in central Japan with the FiT secured. Etrion expects to sign the land contract after completion of the grid impact study. The project is expected to be shovel-ready by Q1-2016.

Japan Brownfield Project 1 is a 50 MW solar project in southern Japan with the FiT secured and the land contract signed. Etrion has secured exclusivity with the developer, and the grid impact studies are complete. The project is expected to be shovel-ready by Q1-2016.

Japan Brownfield Project 2 is a 51 MW solar project in northern Japan with the FiT in progress, land contract in progress and grid impact studies in progress. Etrion has secured exclusivity with the developer and is working with the land owner to secure the land. The project is expected to be shovel-ready by Q1-2016.

These projects may be replaced by other projects within the next twelve months in order to accelerate construction or improve project economics.



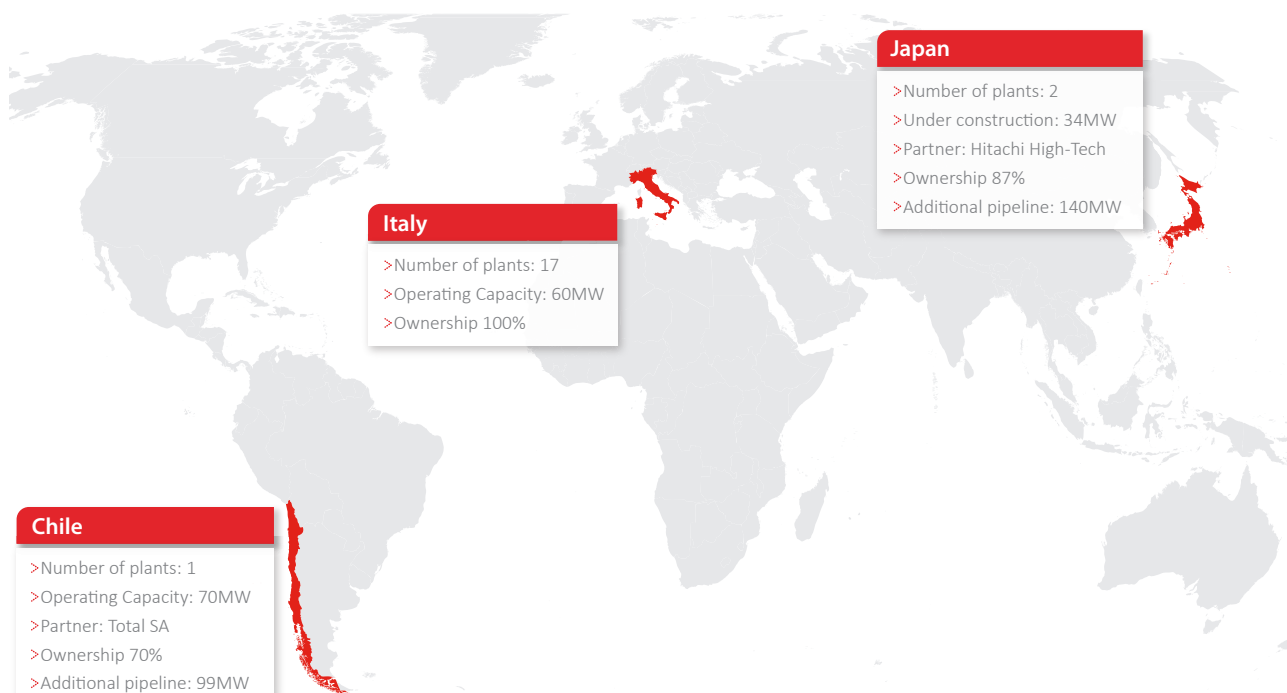
### Solar Market Overview

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 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.



Map of Etrion assets worldwide

## ITALIAN MARKET

### FiT system

In 2005, the Italian government introduced an FiT system in order to encourage expansion of solar energy. The FiT system, combined with strong solar irradiation and high spot electricity prices, has led to significant growth in the installed capacity of solar generating facilities since 2005. The Italian state-owned company, Gestore Servizi Energetici ("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. A summary of the actual 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
FiT (€/kWh)	€0.250	€0.346	€0.353
Duration	20 years	20 years	20 years

In addition to the FiT, solar power generators in Italy receive the spot market rate on a per kWh basis. The average Market Price during 2014 was approximately €0.04 (\$0.05) per kWh of electricity produced.

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 will impact the revenues received by solar power producers by reducing the annual FiT incentive to be paid by the GSE. Specifically, the approved decree outlined three options for solar power producers to reduce the original FiT effective January 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.

Although these proposed changes will impact the revenues, EBITDA and cash flows of the Group going forward, they do not impact the carrying value of its assets and liabilities as reported at December 31, 2014.

In addition, the approved decree introduces 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 has indicated that their systems were not ready to support the new decree and that they would activate the new payment mechanism starting January 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 have therefore filed a domestic legal action in the Italian courts to seek a declaration that the new decree is unconstitutional or alternatively to obtain compensation for damages resulting from the changes to the FiT regime.

Since Etrion's management considers the new decree unconstitutional, it did not communicate any election to the Italian government by the November 30, 2014 deadline. According to such new decree, in the absence of a formal election by solar plants owners, the 6-8% flat reduction is applicable as of January 1, 2015.

### 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 reduces 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%. In 2011, the Robin Hood tax was expanded to include renewable energy companies. In 2013, the Italian government lowered the revenue threshold for the application of the surtax. In 2014, the government reduced the surtax, thereby reducing the overall income tax rate from 38% to 34%. 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. Management has used the revised corporate tax of 27.5% to measure deferred tax assets and liabilities as at December 31, 2014.

### *Tax depreciation method*

On December 19, 2013, the Italian tax authorities introduced a new mandatory method for the calculation of depreciation of solar plants in Italy. Etrion's management challenged the new mandatory method through legal recourse with the tax authorities that was dismissed in November 2014. Accordingly, Etrion's management followed the new mechanism for the calculation of depreciation for tax purposes in Italy. The new mandatory method is based on 4% annual depreciation instead of the previous 5% annual depreciation of the historical cost of the solar plants. In practice, this change introduced by the Italian government increases the useful life of the solar plants for tax purposes from 20 years to approximately 24 years. The effective date of the application of the new method for tax purposes is January 1, 2013. From that date, the operating entities in Italy deduct a lower amount of depreciation when calculating taxable income for corporate and provincial taxes, resulting in a higher tax bill going forward and reducing cash flows available for distribution. Since the application of the new law is retroactive for tax purposes, the Italian operating companies have recalculated and paid additional taxes in 2014 due to the change in law with respect to the year ended December 31, 2013.

### **CHILEAN MARKET**

Chile's energy demand has 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 resources has made the country a net importer of energy and module prices are at an all-time low, with a continued decrease in price due to technology improvements and scale. The energy sector is largely 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. However, there is a large opportunity for growth in the solar sector, especially in the northern part of the country where more than 90% of the electricity consumption arises from industrial users, such as mining operations. 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 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 will initially operate on a merchant basis with the ability to secure future PPAs.

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

- SING – Sistema Interconectado del Norte Grande, the northern grid, accounts for approximately 25.4% of total electricity production in Chile. The SING is primarily served by thermoelectric plants.
- SIC – Sistema Interconectado Central, the central grid, accounts for approximately 74% of the 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, which will initially operate on a spot market/merchant basis, is located along the SIC. The SIC is expected to be interconnected with the SING by 2018 which is expected to result in lower electricity market price volatility.
- 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.

Etrion's business development activities are focused on solar power generation that is carried along the SING and SIC, which provide service to industrial users who are particularly concerned with electricity shortages as a result of strong growth in energy demand. Together, the SING and SIC account for more than 99% of Chile's total electricity production. The Chilean government has announced plans to connect the SING and SIC networks, which is expected to result in a more stable long-term spot market price for the combined networks.

During the fourth quarter of 2014, the observable market prices in the SIC network at the Diego de Almagro node relevant to Project Salvador were particularly low and between the range of \$60-100/MWh mainly from October through December being the lowest price period during the year because hydro sources of



energy are more active following the summer ice melt. However, the last 12 months average price was around \$127/MWh. There was unusually high generation from hydro sources from September through December due to wetter/warmer weather compared to recent years and new wind projects entering into operations. Finally, during November prices were low due to the SIC network's maintenance works that limited the flow of energy between the SIC subsystems, keeping only the lowest cost energy producing in the Northern area of the SIC and reducing the marginal cost.

### JAPANESE MARKET

Japan is the world's third largest energy consumer and today is the third 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, which has led to most of the nation's 52 reactors being idled due to safety concerns. While current renewable energy usage remains low (currently 7.2% of total primary energy), Japan is planning to accelerate further renewable energy development. By the end of 2014, Japan had installed more than 25 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 next FiT expected to apply from April 2015 is ¥29, which is expected to be reduced to ¥27 in Q3 2015.

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 existing grid connection acceptance 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 increase 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 less than 10 kW.
- **Curtailment** – 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 or under construction in Japan by the first quarter of 2016 should not be affected by the changes to the Japanese FiT regime described above.

### 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.

In Asia, Etrion will continue to focus in Japan in the short-term. However, the Company is exploring new markets in partnership with HHT.

Etrion established offices in Miami, USA, in September 2014 to more effectively address the solar market in the Americas. The Company is exploring investment opportunities in Mexico, Peru, Panama and Brazil and believes it should be in a good position to expand into at least one new market in the Americas.

In Europe, the Company is monitoring new opportunities in select markets, including the United Kingdom and France. Etrion believes there will continue to be greenfield, brownfield and consolidation opportunities in these markets.

### COMPETITION

There are different sources of competition in the solar market value chain. In the upstream, there are many solar panel suppliers, with significant financial strength and production capacity. The suppliers in the upstream continue to go through adjustments to better plan their capacity to meet demand. Some of the upstream suppliers are also participating in the downstream market, while others are looking to expand into the downstream in order to increase their ability to market and sell their panels. In the downstream, companies like Etrion find competition at different levels, including competition for financing, land and/or human resources. As the downstream solar market continues to expand, Etrion believes competition will increase as more established utilities and infrastructure funds realize the opportunities ahead for solar. Etrion's strategy, as a downstream player, is generally to only deploy capital to build new solar parks if such investments meet its minimum investment criteria. In the event that potential investments do not meet Etrion's criteria, investment may be delayed until Capex prices drop further (if at all), or abandoned with minimum financial impact. 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. Etrion 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. Depending on the financial climate, the Company may also face competition when seeking to raise equity and/or external debt for planned projects. There is increasing competition from the so-called YieldCo entities, where larger developers are able to lower their cost of capital to acquire renewable assets with lower returns.

### Performance Drivers

The Company's management has identified the following key drivers of success for its renewable energy operations:

- Stable revenues:
  - Premium price for solar electricity generation under long-term contracts (i.e., FiT or PPAs);
  - Abundant renewable resources (i.e., solar irradiation varying less than 10% annually); and
  - Economic growth increasing power demand and wholesale electricity prices.
- Low equipment and operating costs:
  - Cost reduction through increased supply, competition and technological improvements; and
  - Fixed price O&M contracts, including preventive and corrective maintenance.
- Available long-term financing with low cost of debt:
  - Project financing up to 85% using non-recourse project loans; and
  - Long-term hedging arrangements to minimize interest rate risk.

## Financial Results

### FOURTH QUARTER AND YEAR-END SELECTED FINANCIAL INFORMATION

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

<i>all numbers in thousands USD</i>	Three months ended December 31		Twelve months ended December 31		
	2014	2013	2014	2013	2012
<b>Revenue</b>	<b>6,368</b>	<b>7,761</b>	<b>49,628</b>	<b>53,911</b>	<b>55,662</b>
<b>Gross profit</b>	<b>4,318</b>	<b>319</b>	<b>25,862</b>	<b>25,431</b>	<b>29,736</b>
<b>Net loss<sup>(1)</sup></b>	<b>(8,006)</b>	<b>(5,666)</b>	<b>(16,455)</b>	<b>(10,304)</b>	<b>(8,458)</b>
Adjustments for non-recurring items:					
- Operational items	-	-	804	-	62
- Extraordinary items	(265)	(3,810)	(265)	(3,190)	(1,658)
- Financing items	-	731	1,033	731	
- Tax-related items	-	(1,673)	-	(1,673)	
<b>Adjusted net loss before non-recurring items</b>	<b>(8,271)</b>	<b>(10,418)</b>	<b>(14,883)</b>	<b>(14,436)</b>	<b>(10,054)</b>
Adjustments for non-cash items:					
- Depreciation and amortization	1,080	5,374	16,744	20,491	19,896
- Fair value movements (derivative financial instruments)	341	(297)	2,042	(408)	225
- Share-based payment expense	316	62	493	507	495
<b>Adjusted net (Loss)/income before non-recurring and non-cash items</b>	<b>(6,534)</b>	<b>(5,279)</b>	<b>4,396</b>	<b>6,154</b>	<b>10,562</b>
<b>Net loss</b>	<b>(8,006)</b>	<b>(5,666)</b>	<b>(16,455)</b>	<b>(10,304)</b>	<b>(8,458)</b>
Adjustments for:					
- Net income tax expense/(recovery)	565	(2,237)	2,602	2,164	4,045
- Depreciation and amortization	1,080	5,374	16,744	20,491	19,896
- Share-based payment expense	316	62	493	507	495
- Net finance costs	2,628	7,878	28,689	27,555	27,253
- Other income	(236)	(3,701)	(508)	(3,081)	(1,375)
- Income tax paid	(2,266)	(3,909)	(5,451)	(5,758)	(9,961)
- Changes in working capital	(6,417)	16,268	(37,175)	12,925	8,675
<b>Operating cash flow</b>	<b>(12,336)</b>	<b>14,069</b>	<b>(11,061)</b>	<b>44,499</b>	<b>40,570</b>
- Changes in working capital	6,417	(16,268)	37,175	(12,925)	(8,675)
- Income tax paid	2,266	3,909	5,451	5,758	9,961
<b>Adjusted operating cash flow</b>	<b>(3,653)</b>	<b>1,710</b>	<b>31,565</b>	<b>37,332</b>	<b>41,856</b>

Notes:

(1) Net loss for the year includes both the net loss from continuing operations and the net loss attributable to owners of the Company and non-controlling interests. Basic and diluted loss per share for the years ended December 31, 2014, 2013 and 2012 was \$0.05, \$0.05 and \$0.05, respectively.

During 2014, non-recurring items included operational items of \$0.3 million related to maintenance activities included within operating expenses and \$0.5 million of compensation-related expenses associated with the bond refinancing included within general administrative expenses. In addition, during 2014 the Group recognized a loss of \$1.0 million associated with the early redemption of the previous €60 million corporate bonds and extraordinary income of \$0.3 million related to the successful renegotiation of the share revenue clause with SunPower. During 2013, the net results were positively impacted by non-recurring other income of \$3.9 million obtained on the sale of all of its shares in its previously wholly-owned subsidiary, PFC Oil & Gas, CA ("PFC") and the recognition of special tax credits of \$1.7 million for one of the Italian operating projects.

<i>all numbers in thousands USD</i>	2014	2013	2012
Non-current assets	525,845	401,410	385,166
Current assets	142,267	116,841	67,611
<b>Total assets</b>	<b>668,112</b>	<b>518,251</b>	<b>452,777</b>
Non-current liabilities	529,365	460,209	417,515
Current liabilities	105,817	69,380	49,908
<b>Total liabilities</b>	<b>635,182</b>	<b>529,589</b>	<b>467,423</b>
Working capital (current assets less current liabilities)	36,450	47,461	17,703
Dividends declared	-	-	-

## FINANCE REVIEW - Year End Results

### QUARTERLY SELECTED FINANCIAL INFORMATION

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

	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	6,368	17,129	17,764	8,367	7,761	19,414	18,414	8,322
Net loss <sup>(1)</sup>	(8,006)	1,193	(1,434)	(8,208)	(5,666)	1,056	(238)	(5,456)
Basic and diluted (loss)/earnings per share	(0.024)	0.004	(0.005)	(0.025)	(0.027)	0.005	(0.001)	(0.027)

Notes:

(1) Net income/(loss) for the period includes both the net income/(loss) from continuing operations and the net income/(loss)/loss attributable to owners of the Company and non-controlling interests.

Solar-related revenues experience seasonality over the year due to the variability of daily sun hours in the summer versus the winter months, resulting in lower revenues in the first and fourth quarters each year. The impact of seasonality on the Group's business should decrease over time as the Group secures additional solar power projects in Chile. In Italy, revenues are received in Euros and have been translated at the average €/€ exchange rate of the corresponding period. Consequently, revenues expressed in US dollars may fluctuate according to exchange rate variations.

### YEAR-END RESULTS

#### EBITDA

The following is a summary of the Group's EBITDA and adjusted EBITDA:

<i>all numbers in thousands USD</i>	2014			2013		
	Renewable energy <sup>(1)</sup>	Corporate <sup>(1)</sup>	Total	Renewable energy <sup>(1)</sup>	Corporate <sup>(1)</sup>	Total
Revenue	49,628	-	49,628	53,911	-	53,911
Operating expenses	(7,374)	-	(7,374)	(8,359)	-	(8,359)
General and administrative expenses	(1,156)	(9,080)	(10,236)	(1,554)	(6,707)	(8,261)
Other income/(expenses)	463	45	508	(134)	3,215	3,081
<b>EBITDA</b>	<b>41,561</b>	<b>(9,035)</b>	<b>32,526</b>	<b>43,864</b>	<b>(3,492)</b>	<b>40,372</b>
Non-recurring items:						
- Operational items	343	461	804	-	-	-
- Extraordinary items	(265)	-	(265)	(96)	(3,919)	(4,015)
<b>Adjusted EBITDA</b>	<b>41,639</b>	<b>(8,574)</b>	<b>33,065</b>	<b>43,768</b>	<b>(7,411)</b>	<b>36,357</b>

Notes:

(1) The renewable energy segment includes only the Group's operating solar power projects. All other revenues, expenses, assets and liabilities are included within the corporate segment, which includes all corporate overhead.

#### Revenue

<i>all numbers in thousands USD</i>	2014	2013
FiT revenue	44,132	45,922
Market Price revenue	5,496	7,989
<b>Total revenue</b>	<b>49,628</b>	<b>53,911</b>

Revenues decreased by \$4.3 million (7.9%) during 2014 compared to the same period of 2013, due to lower solar irradiation and a reduction in the Market Price in Italy.

#### Operating expenses

<i>all numbers in thousands USD</i>	2014	2013
Operations and maintenance ("O&M") costs	2,719	3,464
Operating personnel costs	1,045	1,032
Depreciation and amortization (operating solar power projects)	16,392	20,121
Taxes (other than income tax)	1,948	1,880
Insurance	367	434
Land lease	212	211
Other operating expenses	1,083	1,338
<b>Total operating expenses</b>	<b>23,766</b>	<b>28,480</b>

Operating expenses decreased by \$4.7 million (16.5%) during 2014 compared to 2013 mainly due to the change in the estimated useful life of the Group's solar power plants in Italy, from the original 20 years to 24 years estimate, and also due to the revision of the shared revenue clause with an O&M contractor, the outcome of which was in the favor of two of the Group's Italian subsidiaries. The Group's solar power projects licenses and permits (included within intangible assets) continue to be depreciated and amortized over 20 years.



*General and administrative expenses*

	<i>all numbers in thousands USD</i>	<b>2014</b>	<b>2013</b>
Salaries and benefits		4,324	3,042
Pension costs <sup>(1)</sup>		151	136
Board of Directors fees		335	344
Share-based payment expense (non-cash item)		493	507
Corporate and professional fees		2,852	2,729
Listing, filing and marketing expenses		440	334
Depreciation and amortization (corporate assets)		352	370
Office lease expenses		443	477
Office, travel and other general and administrative expenses		1,198	692
<b>Total general and administrative expenses</b>		<b>10,588</b>	<b>8,631</b>

During 2014, general and administrative expenses increased by \$1.9 million (22.6%) compared to the same period of 2013, primarily due to travel-related expenses, a higher headcount during the period, compensation-related expense associated with the bond refinancing, recruitment-related activities, certain development costs not eligible for capitalization, less costs being capitalized into development projects and professional fees associated with the Group's business development activities in Chile and Japan. During 2014, \$1.3 million (2013: \$2.0 million) of internally-generated costs were capitalized within intangible assets directly attributable to the Group's business development activities in Chile and Japan.

*Other income*

	<i>all numbers in thousands USD</i>	<b>2014</b>	<b>2013</b>
Gain on disposal of subsidiary		-	3,919
Impairment related to business development activities		-	(825)
Right of use		65	48
Liquidation damages		-	96
Other		443	(157)
<b>Total other income</b>		<b>508</b>	<b>3,081</b>

During 2014, the Group recognized a gain of \$0.2 million (2013: \$nil) from the renegotiation of the shared revenue clause applicable to two of the Group's solar power projects in Italy. During 2013, the Group had impairment costs of \$0.8 million associated with its business development activities in Chile related to projects it is no longer pursuing, including \$0.4 million of technical, legal and permitting costs related to the original Aguas Blancas project structure. In addition, in October 2013, Etrion sold all of its shares in PFC for total cash consideration of \$5.0 million. The non-core assets were carried on Etrion's balance sheet at \$1.1 million, resulting in a net gain of \$3.9 million.

*Net finance costs*

	<i>all numbers in thousands USD</i>	<b>2014</b>	<b>2013</b>
Interest expense associated with non-recourse project loans <sup>(1)</sup>		17,758	19,823
Interest expense associated with corporate borrowings <sup>(1)</sup>		10,728	7,527
Net fair value movements associated with derivative financial instruments		2,042	(408)
Equity-based fee		-	731
Foreign exchange (gain)/loss		(1,694)	478
Other net finance costs		801	(130)
<b>Net finance costs</b>		<b>29,635</b>	<b>28,021</b>

Note:

(1) Interest expense shown here includes transaction costs and is net of any borrowing costs capitalized during the relevant year.

During 2014, net finance costs increased by \$1.6 million (5.7%) compared to the same period of 2013, primarily due to an increase in interest associated with corporate borrowings, specifically the loss associated with the early redemption of the Company's previously outstanding €60 million principal amount of corporate bonds and additional interest related to the new €80 million principal amount of corporate bonds, and an increase to the net fair value losses associated with the Group's interest rate swap contracts. The increase in net finance costs in 2014 was partially offset by foreign exchange gains as a result of the approximately 13% devaluation of the Euro versus the US dollar in the 2014. During 2014, the Group capitalized \$8.6 million of borrowing costs associated with credit facilities obtained to finance the construction of Project Salvador, Shizukuishi and Mito.

## FINANCE REVIEW - Financial Position

### Income tax expense

	<i>all numbers in thousands USD</i>	<b>2014</b>	<b>2013</b>
Current income tax expense		6,298	4,647
Deferred income tax recovery		(3,696)	(2,483)
<b>Total income tax expenses</b>		<b>2,602</b>	<b>2,164</b>

During 2014, total income tax expense increased by \$0.4 million (20%) compared to the same period of 2013. This was primarily due to an increase in the taxable income generated by the Group's operating solar projects in Italy following the increase in the tax useful life of the solar power plants. In addition, in 2014 the incremental tax associated with the so-called "Robin Hood" tax legislation in Italy was reduced from 10.5% to 6.5%, reducing the corporate income tax rate from 38% to 34% for 2014. On February 11, 2015, the Italian Constitutional Court published a ruling that declared the "Robin Hood" tax unconstitutional and eliminated it from February 2015 onwards. The removal of the Robin Hood tax reduces the ordinary income tax rate applicable to most energy companies in Italy from 34% to 27.5%. Management has used the corporate tax of 27.5% to measure deferred tax assets and liabilities as at December 31, 2014.

### FOURTH QUARTER 2014

The Group recognized a net loss of \$8.0 million during the fourth quarter of 2014 compared to a net loss of \$5.7 million in the comparable period of 2013, due to the following:

- a decrease to revenues of \$1.4 million (primarily a result of the significant drop in the Euro vs US dollar exchange rate in the last quarter of that year and the decrease in the Market price in Italy);
- a decrease to operating expenses (excluding depreciation) of \$1.1 million (primarily due to cost reductions measures being implemented during the year and the renegotiation of the share revenue contract with SunPower which resulted in favor of two of the Group's Italian subsidiaries);
- an increase to general and administrative expenses of \$0.4 million (due to higher compensation benefits and higher headcount in comparison with 2013);
- a decrease to other income of \$3.5 million (primarily due to the recognition of a gain in the disposal of PFC in 2013);
- a decrease to depreciation and amortization expenses of \$ 4.3 million due to the change in the useful life estimates for the Group's solar assets in Italy;
- an increase to net finance costs of \$0.2 million (primarily due to the Bond Refinancing) and;
- an increase to net income tax expenses of \$0.3 million (primarily as a result of the new tax useful life of the Group's solar power plants in Italy, resulting in a higher income tax expense being recognized).

## Financial Position

### LIQUIDITY AND FINANCING

During 2014, the Group's total equity increased by \$42.3 million from a net liability position of \$12.3 million at December 31, 2013, to a net asset position of \$30.0 million at December 31, 2014. This change was primarily due to the private placement completed in January 2014, an increase to the written call option associated with Project Salvador, share-based payment expenses, stock options being exercised and foreign currency translation adjustments, offset by the net loss reported by the Group during the period and unrealized fair value losses recognized within other reserves associated with the Group's derivative financial instruments.

The Group's total equity at December 31, 2014, was negatively impacted by fair value losses of \$30.3 million recognized within other reserves associated with the Group's derivative financial instruments that are not expected to be realized. Excluding these fair value losses, the Group's total equity at December 31, 2014, would have been \$60.3 million.

At December 31, 2014, the Group had cash and cash equivalents of \$95.3 million (December 31, 2013: \$94.9 million), \$33.9 million of which was unrestricted and held at the parent level (December 31, 2013: \$8.5 million), and working capital of \$36.5 million (December 31, 2013: \$47.5 million) or \$65.5 million if we exclude the Helios ITA long-term project loan due the waiver received in February 2015.

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. In addition, the Group's working capital at December 31, 2014, included the long-term portion of the Helios ITA project loan due to breach in covenants as of that date, which was subsequently waived by the lender banks. Excluding these derivative financial liabilities that are not expected to be settled in the short-term and the long-term portion of the Helios ITA project loan, the Group's working capital would have been \$73.7 million.

The Group's cash and cash equivalents at December 31, 2014, included restricted cash of \$61.5 million (December 31, 2013: \$86.4 million) held at the project level, comprising the following:

- Restricted cash and cash equivalents of \$28.4 million (December 31, 2013: \$32.5 million) held at the project level that is restricted by the lending banks in Italy for future repayment of interest and principal and working capital requirements related to specific projects. Restricted cash and cash equivalents can be distributed from the Group's projects, subject to approval from the lending banks, either through repayment of shareholder loans, through payment of interest on shareholder loans or through dividend distributions.
- Restricted cash and cash equivalents of \$28.4 million (December 31, 2013: \$53.9 million) drawn under the loan facilities associated with the construction of Project Salvador that will be used to pay the related construction invoices.
- Restricted cash and cash equivalents of \$4.7 million (December 31, 2013: \$nil) drawn under the loan facilities associated with the construction of Shizukuishi and Mito projects that will be used to pay the related construction invoices.

The Group's cash and cash equivalents at December 31, 2014, included unrestricted cash of \$33.9 million (December 31, 2013: \$8.5 million) held at the parent level. The unrestricted cash balance increased significantly during the twelve months ended December 31, 2014, due primarily to the following:

- Private placement - In January 2014, Etrion completed a private placement for net proceeds of \$76.3 million, issuing approximately 124,633,571 common shares at a price of SEK 4.15 (approximately CAD\$0.70) per share. The net proceeds were used: (i) to fund the equity contributions associated with the Group's first project in Chile (Project Salvador) and Japan (Shizukuishi and Mito); (ii) to repay the \$18 million bridge loan obtained from investment companies associated with the Lundin family, the Company's major shareholder (fully repaid in January 2014); and (iii) for general corporate purposes.
- Bond Refinancing - In April 2014, Etrion issued €80 million in senior secured bonds in the Norwegian bond market at 8.0% annual interest with a 5-year maturity. The net proceeds were/will be used: (i) to redeem the previously outstanding €60 million of corporate bonds (completed in May 2014 at 101% of par value plus accrued interest in accordance with the related bond agreement); and (ii) for general corporate purposes.

As a result of these transactions, the Group has significantly increased its liquidity and has a fully-funded portfolio of operational and under construction projects (including Project Salvador in Chile and Shizukuishi and Mito in Japan). In addition, the Group expects to generate sufficient operating cash flows in 2015 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 or debt financing and non-recourse project loans, as required. After completing the private placement and the bond refinancing, the Group secured additional funds and liquidity for its anticipated growth and development activities.

At December 31, 2014, the Group's contractual obligations for the next five years and thereafter are as follows:

<i>all numbers in thousands USD</i>	2015	2016	2017	2018	2019	After five years	Total
EPC contracts	30,407	42,914	-	-	-	-	73,321
Non-recourse project loans repayments	24,838	53,742	38,269	36,342	36,947	450,161	640,299
Corporate borrowings repayments	7,770	7,770	7,770	7,770	101,013	-	132,093
O&M contracts	1,894	1,922	1,950	1,997	2,032	24,404	34,199
Operating leases	1,638	1,602	1,468	1,473	1,357	21,987	29,525
Trade and other payables	24,110	-	-	-	-	-	24,110
<b>Total contractual obligations</b>	<b>90,657</b>	<b>107,950</b>	<b>49,457</b>	<b>47,582</b>	<b>141,349</b>	<b>496,552</b>	<b>933,547</b>

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

## FINANCE REVIEW - Financial Position

### Borrowings

The Group's adjusted net debt position, excluding non-cash items at December 31, 2014, and December 31, 2013, is as follows:

	<i>all numbers in thousands USD</i>	<b>December 31 2014</b>	<b>December 31 2013</b>
<b>Total borrowings (per consolidated financial statements)</b>		<b>525,251</b>	<b>438,584</b>
Value added tax ("VAT") facility <sup>(1)</sup>		(26,895)	(4,448)
Accrued interest <sup>(2)</sup>		(3,507)	(2,968)
Transaction costs <sup>(2)</sup>		14,360	12,343
<b>Adjusted borrowings</b>		<b>509,209</b>	<b>443,511</b>
Cash and cash equivalents (including restricted cash)		(95,349)	(94,914)
<b>Adjusted net debt</b>		<b>413,860</b>	<b>348,597</b>

Notes:

- (1) The VAT facility outstanding at December 31, 2014, relates to the construction of Project Salvador, Shizukuishi and Mito. This amount has been excluded from total borrowings as this facility will be repaid using the proceeds from input VAT from the Chilean and Japanese tax authorities, respectively.
- (2) In accordance with IFRS, total borrowings include accrued interest and are shown net of transaction costs. These non-cash items are excluded from total borrowings to calculate adjusted net debt (on a cash flow basis).

The Group's net debt increased during 2014 mainly due to an increase of \$65.7 million in the Group's total borrowings outstanding due to new debt acquired by the Chilean and Japanese projects and also the net increase in outstanding corporate bonds, partially offset by an increase of \$0.4 million in the Group's cash and cash equivalents.

### Non-recourse project loans

The following is a summary of the Group's non-recourse project loans at December 31, 2014, and December 31, 2013:

	Capacity (MW)	Financial institution	Maturity	Balance outstanding <sup>(1)</sup>	
				December 31 2014 \$'000	December 31 2013 \$'000
Cassiopea	24.0	BIS <sup>(2)</sup> , Societe Generale and Portigon	March 31, 2024	108,478	129,198
Helios ITA-3	10.0	Natixis, Portigon and Mediocreval	September 30, 2027	36,932	43,946
Centauro	8.8	Barclays	September 30, 2028	39,468	50,162
Helios ITA	6.4	Societe Generale and Dexia	September 30, 2024	31,050	37,171
Etrion Lazio	5.3	Natixis, Portigon and Mediocreval	September 30, 2027	17,796	21,110
SVE	3.0	UBI Banca	September 30, 2028	12,862	15,863
Sagittario	2.6	Natixis, Portigon and Mediocreval	September 30, 2027	7,593	8,979
Salvador <sup>(3)</sup>	70.0	OPIC, Rabobank <sup>(3)</sup>	June 1, 2033	164,024	48,205
Shizukuishi	24.7	SMTB <sup>(4)</sup>	September 30, 2032	5,005	-
Mito	9.3	SMTB <sup>(4)</sup>	December 30, 2032	5,334	-
<b>Total</b>	<b>164.0</b>			<b>428,542</b>	<b>354,634</b>

Notes:

- (1) The Group's non-recourse project loans used to finance its Italian projects are expressed in Euros, translated at the closing €//\$ exchange rate of 1.21 at December 31, 2014, and 1.38 at December 31, 2013. The balances outstanding include accrued interest and are net of transaction costs (in accordance with IFRS).
- (2) Banca Intesa Sanpaolo Spa.
- (3) The balance outstanding for Project Salvador includes the VAT facility from Rabobank (to be repaid using the proceeds from input VAT from the Chilean tax authorities) that matures on February 28, 2016.
- (4) The balance outstanding for Shizukuishi and Mito includes the VAT facility from SMTB (to be repaid using the proceeds from input VAT from the Japanese tax authorities) that matures on June 2017.

### Italian projects

The non-recourse project loans obtained by the Group's Italian subsidiaries to finance the construction of the Group's Italian solar power projects mature at various dates between 2024 and 2028 and bear annual interest rates of Euribor plus a margin ranging from 1.35% to 3.1%. At December 31, 2014, the fair value of the non-recourse project loans approximated their carrying values as the loans bear floating interest rates. At December 31, 2014, the Group had no undrawn amounts associated with these facilities. In order to secure the Group's non-recourse project loans, the Group pledged as collateral the fixed assets associated with the solar power projects financed by these facilities. The carrying value of the Group's fixed assets pledged as collateral at December 31, 2014, was \$292 million (2013: \$348 million).

Repayment of these facilities is secured principally by the proceeds from the sale of electricity under contracts entered into by the Group with the GSE and proceeds from the collection of input VAT accumulated for construction costs. Counterparties to the non-recourse project loans do not have unconditional or unilateral discretionary rights to accelerate repayment to earlier dates.



All the Italian non-recourse projects loans are hedged through interest rate swap contracts, all of which qualified for hedge accounting at December 31, 2014 and 2013.

As at December 31, 2014, one of the Group's Italian subsidiaries Helios ITA, did not reach the minimum historical debt service coverage ratio. As a result, according to the terms of the credit facility agreement, the Company was deemed to be in breach of covenants and the Group reclassified the long-term portion of this project loan to short-term liability. This breach in covenants was due to the deterioration of free cash flow as a consequence of multiple factors beyond the control of Helios ITA, such as the reduction in the minimum guaranteed spot electricity prices applicable to Helios ITA's solar sites below 1 MW, the expanded scope of the Robin Hood tax and a new tax depreciation method recently introduced in Italy. However, on February 24, 2015, 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 total debt outstanding is not considered to be immediately repayable. At December 31, 2014 and 2013, the Group was not in breach of any of the operational or financial covenants associated with its Italian project loans except Helios ITA in 2014 as noted above.

### ***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 loan was drawn in three tranches, each of which is subject to a different fixed interest rate. The first tranche of \$50 million drawn in December 2013 bears a fixed annual rate of 7.51%. The second tranche of \$64 million drawn in May 2014 bears a fixed annual rate of 7.1%. The third tranche of \$26.5 million drawn in December 2014 bears a fixed annual rate of 6.82%. At December 31, 2014, there were no undrawn amounts under this credit facility. The repayment of this credit facility is secured principally by the proceeds from the sale of electricity in the spot market once the solar project is operational. The loan is accounted for using the amortized costs method based on the effective interest rate.

Salvador's financing agreement contains customary representations, warranties, covenants and undertakings restricting the borrower in respect of disposals, acquisitions, payments and transfers and incurring indebtedness and granting guarantees and security. The Company's subsidiary has provided certain of its assets as collateral to secure its obligations under the financing agreement. The carrying value of Salvador's fixed assets pledged as collateral at December 31, 2014, was \$172.8 million (2013: \$nil).

In addition, the Group obtained a local currency VAT credit facility of approximately \$35 million in 2013 from Rabobank, a Chilean bank owned by Rabobank Group, a Dutch multinational banking and financial services company, to finance the VAT associated with the construction costs of Project Salvador. The VAT credit facility bears variable interest rates that are set every quarter plus a margin. The average applicable interest rate during 2014 was approximately 6%. During 2014, the Group drew an equivalent total amount of \$24.4 million under this VAT credit facility (net of transaction costs). At December 31, 2014, there were no undrawn amounts under this credit facility.

### ***Japanese projects***

During 2014, the Group's Japanese subsidiaries that hold the 34 MW Shizukuishi and Mito projects entered into a senior secured financing agreement in Japanese yen with Sumitomo Mitsui Trust Bank, Limited (SMTB) for a total amount of ¥9,854 million (\$82.0 million) in order to finance 80% of the construction costs of the projects. These credit facilities have an 18-year tenor and bear floating interest rates during the construction period of the solar plants and a 90% hedged interest rate plus a margin during operation. The repayment of this facility is secured principally by the proceeds from the sale of electricity under a purchase power agreement with the respective utility. At December 31, 2014, the fair value of the non-recourse project loans approximated their carrying values as the loans bear floating interest rates.

In addition, during 2014, the Group's Japanese subsidiaries entered into a VAT credit facility agreement in Japanese yen with SMTB for a total amount of ¥846 million (\$7.0 million) in order to finance the related VAT capital disbursements of the Shizukuishi and Mito projects. These VAT credit facilities have a term of three years and bear a variable interest rate plus a margin. During 2014, the Group's Japanese subsidiaries completed the first drawdowns under the senior financing agreement in the amount of ¥1,210 million (\$10.0 million), before transaction costs. As of December 31, 2014, the undrawn gross amount was ¥8,644 million (\$72.0 million). In addition, during 2014 the Group's Japanese subsidiaries also completed the first drawdowns under the VAT credit facility in the amount of ¥240 million (\$2.0 million). As of December 31, 2014, the undrawn gross amount was ¥606 million (\$5.0 million).

## FINANCE REVIEW - Financial Position

Repayment of these facilities is secured principally by the proceeds from the sale of electricity under contracts entered into by the Group with the local grid operator and proceeds from the collection of input VAT accumulated for construction costs. Counterparties to the non-recourse project loans do not have unconditional or unilateral discretionary rights to accelerate repayment to earlier dates.

All the Japanese non-recourse projects loans are hedged through interest rate swap contracts, all of which qualified for hedge accounting at December 31, 2014.

### Corporate borrowings

On April 23, 2014, Etrion issued €80 million principal amount of new secured bonds in the Norwegian bond market. The new bonds have an annual interest rate of 8.0% and mature in April 2019. A portion of the net proceeds from this transaction was used to refinance the Company's previous €60 million of corporate bonds that bore annual interest of 9.0% and were due to mature in April 2015. The carrying value of the new corporate bonds at December 31, 2014, including accrued interest and net of transaction costs, was \$96.7 million.

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 (i.e., a fixed premium). Specifically, the Company can redeem the bond: within the first two years at 4% above par value plus the net present value of the interest that would have accrued up to April 22, 2016 (using a discount rate of 50 basis points over the German government bond rate comparable to the remaining duration of the bonds until April 22, 2016); 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.

Using the proceeds from the new bonds, the Company redeemed the previously issued €60 million of corporate bonds in May 2014 at a redemption price equal to 101% of par value plus accrued interest in accordance with the associated bond agreement. As a result, the Group recognized a \$1 million loss associated with the settlement of these bonds, representing the fair value of the call option and the balance of unamortized transaction costs.

The Group's borrowings are denominated in Euros, US dollars and Japanese Yen and the minimum principal repayment obligations are as follows:

	<i>all numbers in thousands USD</i>	<b>2014</b>	<b>2013</b>
Less than 1 year		68,973	19,787
Between 1 and 5 years		159,404	192,889
More than 5 years		296,874	225,908
<b>Total borrowings</b>		<b>525,251</b>	<b>438,584</b>

### **OUTSTANDING SHARE DATA**

At the date of this MD&A, the Company had 334,082,657 common shares (March 18, 2014: 333,852,657) and options to acquire 4,800,000 common shares of the Company (March 18, 2014: 6,190,000) issued and outstanding. The options expire at various dates between October 18, 2015, and April 28, 2018, with exercise prices in CAD\$ ranging between CAD\$0.66 and CAD\$1.59 per share.

In addition, at the Company's Annual and Special General Meeting held on June 12, 2014, the shareholders approved the adoption of a Restricted Share Unit Plan (RSU) awards scheme for employees, consultants, directors and officers of the Group. The RSUs have a contractual term of three years and are subject to certain time-based conditions and performance-based vesting conditions. In 2014, the Company granted 6,660,440 RSUs to certain employees of the Company under this long-term incentive plan.

### **OFF-BALANCE SHEET ARRANGEMENTS**

The Group had no off-balance sheet arrangements at December 31, 2014, and December 31, 2013.

## Capital Investments

The Group plans to make significant capital investments in 2015 in order to develop and build its solar projects under development in Chile. The following table summarizes the Group's expected capital investments in 2015 for projects expected to begin construction in 2015:

	Status	Gross capacity (MW)	Ownership (%)	Total project cost <sup>(1)</sup> \$'million	Total equity contribution <sup>(2)</sup> \$'million	Remaining equity contribution <sup>(3)</sup> \$'million
<b>Projects in Chile</b>						
Aguas Blancas 2B <sup>(4)</sup>	Development	24.0	100.0	51.3	12.8	12.8
<b>Total 2015 planned capital expenditure</b>		<b>24.0</b>		<b>51.3</b>	<b>12.8</b>	<b>12.8</b>

Notes:

- (1) Total project cost represents the total estimated capital expenditure to develop and build the solar project. It is expected that the total project cost for projects under development in Chile will be financed up to 75% through non-recourse project debt with international financial institutions.
- (2) Total equity contribution represents Etrion's portion of the total project cost based on its expected ownership interest.
- (3) Remaining equity contribution represents the portion of Etrion's total equity contribution unpaid at December 31, 2014. Any development costs, including both third-party and internally-generated costs charged to the projects, may be deducted from this amount, reducing Etrion's total cash outlay for the projects.
- (4) Aguas Blancas includes three locations that are expected to be financed and built at different times.

During 2014, Etrion successfully completed the private placement and bond refinancing (as outlined on page 18), partially funding its anticipated growth and development activities in Chile and Japan. The Group will finance the remaining 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. The Aguas Blancas projects includes three locations in the SING network that are expected to be financed and built at different times. The other two sites, 2A and 2C, with a total capacity of 48 MW are likely to start construction in 2016.

## CONTRACTUAL AND CAPITAL COMMITMENTS

### 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 December 31, 2014, the Group had contractual obligations over two years to acquire construction services in the amount of \$223 million related to the construction of the 70 MW Salvador solar power project in Chile and 34 MW solar power projects in Japan, of which \$149 million has been paid. All of the contractual obligations will be funded from existing cash available or future cash flows from operations with no additional capital investments to be made by the Group.

### Capital investments

As of December 31, 2014, Etrion had contributed all of its remaining capital commitments in the amount of approximately \$48.1 million, based on the Company's participation in the Chilean and Japanese project companies. At December 31, 2013, the Group had \$27 million of committed capital expenditure outstanding. At the date of this MD&A, the Group had no other significant capital commitments in Chile or Japan.

### Critical Accounting Policies and Estimates

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

#### *New standards and amendments adopted by the Group*

There are no IFRS or International Financial Reporting Interpretations Committee ("IFRIC") interpretations that have been issued effective for financial years beginning on or after January 1, 2014, that would have a material impact on the Company's consolidated financial statements. The following standards applicable to the Group have been adopted for the first time for the financial year beginning on or after January 1, 2014:

- **Amendment to IAS 32, Financial instruments presentation:** This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Group financial statements.
- **Amendment to IAS 39, Financial instruments:** This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39, novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The Group has applied the amendment and there has been no significant impact on the Group financial statements as a result.
- **IFRIC 21, Levies:** This standard sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to payment of a levy and when a liability should be recognized. The Group is not currently subjected to significant levies so the impact on the Group is not material.
- **Amendments to IAS 36, Impairment of assets:** This amendment removed certain disclosures of the recoverable amount of cash generating units ("CGUs") that had been included in IAS 36 by the issue of IFRS 13.

Other standards, amendments and interpretations that are effective for the financial year beginning on January 1, 2014, are not material to the Group.

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

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

- **IFRS 9, Financial Instruments:** This standard addresses the classification, measurement and recognition of financial assets and liabilities, replacing parts of IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Group has yet to assess the full impact of IFRS 9 and intends to adopt IFRS 9 no later than the accounting period beginning on or after January 1, 2018.
- **IFRS 15, Revenue from contracts with customers:** This standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard is effective for annual periods beginning on or after January 1, 2017, and earlier application is permitted. The Group is assessing the impact of IFRS 15.



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

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

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

The Group assesses goodwill for impairment on an annual basis and property, plant and equipment and intangible assets when indicators of impairment exist using value-in-use calculations. The value-in-use calculations are based on the forecasted earnings before interest, tax, depreciation and amortization ("EBITDA") over the expected life derived from the business models developed by the Company's management to value the projects. The assumptions used are consistent with external sources of information and reflect past experience. These business models include various assumptions such as future market prices for solar energy, the forecasted rate of inflation to estimate future operating costs and operating variables such as irradiation, degradation and transfer losses estimated by the Group's internal engineers based on historical atmospheric conditions in the areas where the projects are located. For the purposes of the Group's impairment assessment performed at December 31, 2014, the discount rate used was 7.1% (2013: 7.3%), representing the Group's pre-tax weighted average cost of capital, and no growth rate was applied (as the Group's operating solar power projects are operating at full capacity). The value-in-use calculations used to value the Group's solar power projects are complex and include a wide number of operating and financial variables and assumptions that are subject to change as economic and market conditions vary. At December 31, 2014, no impairment was provided in relation to the Group's previously recognized goodwill, property, plant and equipment and intangible assets. A 2% increase in the Group's discount rate (to 9.1%) would have resulted in no impairment loss being recognized in 2014.

### ***FAIR VALUE OF FINANCIAL AND DERIVATIVE FINANCIAL INSTRUMENTS***

In determining the fair value of the Group's financial instruments, the Company's management uses judgment to select a variety of methods and verifies assumptions that are mainly based on market conditions existing at the balance sheet date. Where possible, the Company's management also obtains fair value measurements from third parties. The fair value of 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. At December 31, 2014, the Group recognized financial liabilities of \$55.4 million (2013: \$36.1 million) associated with its derivative financial instruments.

### ***DEFERRED INCOME TAX ASSETS***

The Group accounts for differences that arise between the carrying amount of assets and liabilities and their tax bases in accordance with IAS 12, Income Taxes, which requires deferred income tax assets only to be recognized to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. The Company's management estimates future taxable profits based on the business models used to value the solar power projects. Any change to the estimates and assumptions used for the key operational and financial variables used within the business models could affect the amount of deferred income tax assets recognized by the Group. At December 31, 2014, the Group recognized \$13.9 million (2013: \$6.5 million) of deferred income tax assets.

### Related Parties

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

The related party transactions disclosed in the notes to the Company's consolidated financial statements for the three and nine months ended December 31, 2014, are summarized below.

### RELATED PARTY TRANSACTIONS

#### *Lundin Services BV*

The Group receives technical and legal services from Lundin Services BV, a wholly-owned subsidiary of Lundin Petroleum AB. Both the Chairman and the Chief Executive Officer of Lundin Petroleum AB are directors of the Company. During 2014, the Group incurred general and administrative expenses of \$0.2 million (2013: \$31,000) from Lundin Services BV, and, at December 31, 2014, the Group had \$7,000 (December 31, 2013: \$5,000) outstanding in relation to these expenses.

During the first quarter of 2014, Lundin Services BV sold its previously held €7.6 million principal amount of the 2011-2015 corporate bonds issued by the Company that were redeemed in April 2014. Lundin Services BV did not participate in the new corporate bond issue completed in April 2014.

During 2014, the Group recognized \$0.3 million (2013: \$0.9 million) of interest expense and \$10,000 (2013: \$25,000) of transaction costs associated with the portion of the corporate bonds held by Lundin Services BV.

#### *Lundin family*

##### Corporate bond

During the first quarter of 2014, investment companies associated with the Lundin family sold their €15 million principal amount of the 2011-2015 corporate bonds issued by the Company that were redeemed in April 2014. Investment companies associated with the Lundin family subsequently subscribed for €15 million of the new corporate bond issue completed in April 2014. This position was later reduced to €9.9 million as of December 31, 2014.

During 2014, the Group recognized \$1.8 million (2013: \$1.8 million) of interest expense and \$72,000 (2013: \$49,000) of transaction costs associated with the portion of the corporate bonds held by investment companies associated with the Lundin family.

##### Lundin family bridge Loan

In September 2013, the Group obtained a \$42 million unsecured loan facility from a company affiliated with the Lundin family at an annual interest rate of 12% with a 12-month maturity in order to fund its business development activities in Chile. During 2013, \$18 million was drawn under the loan facility and in January 2014 the total amount outstanding of \$18.4 million, including interest, was repaid. In addition, in October 2013, in connection with Project Salvador, a company affiliated with the Lundin family issued a \$42 million letter of credit to Total on behalf of Etrion for total consideration of 2,500,000 common shares in Etrion.

### 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, Mr. Northland, the Chief Financial Officer, Cheryl Eversden, and the interim Chief Financial Officer, Garrett Soden, who is covering for Mrs. Eversden during her maternity leave.

During 2014, the Group recognized \$2.4 million (2013: \$2.5 million) within general and administrative expenses associated with the remuneration of key management personnel, related to salaries and short-term benefits, pension costs, fees paid to the Board of Directors and share-based payment expenses. At December 31, 2014, the Group had \$0.4 million outstanding to key management personnel for bonus compensation (2013: \$1.5 million).

## Financial Risk Management

The Group is exposed to a variety of financial risks relating to its operations. These risks include market risk (including currency risk, interest rate risk and electricity price risk), credit risk and liquidity risk. The Group's overall risk management procedures focus on the unpredictability of financial markets, specifically changes in foreign exchange rates and interest rates, and seek to minimize potential adverse effects on the Group's financial performance. The Group seeks to minimize the effects of these risks by using derivative financial instruments to hedge interest rate 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 currency.

The Company's management carries out risk management procedures with guidance from the Audit Committee. The Board of Directors also provides regular guidance on the Group's overall risk management procedures.

Refer to the Company's audited consolidated financial statements for the year ended December 31, 2014, for further details relating to the Group's financial risk management.

## Derivative Financial Instruments

A summary of the Group's derivative financial instruments at December 31, 2014, and December 31, 2013, is as follows:

	December 31 2014	December 31 2013
<i>all numbers in thousands USD</i>		
<b>Derivative financial liabilities:</b>		
Interest rate swap contracts (cash flow hedges) <sup>(1)</sup>		
- Current portion	8,203	9,110
- Non-current portion	47,192	27,019
<b>Total derivative financial liabilities</b>	<b>55,395</b>	<b>36,129</b>

Note:

(1) All of the Group's Italian and Japanese non-recourse project loans are hedged through interest rate swap contracts. At December 31, 2014, and December 31, 2013, all of the Group's derivative financial instruments were classified as cash flow hedges that qualified for hedge accounting.

The Group has entered into seven credit facilities associated with its Italian and Japanese operations that are hedged using interest rate swap contracts in order to reduce the risk of variations in the Group's cash flows as a result of floating interest rates on these non-recourse project loans. 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 2014, the Group recognized a net fair value loss of \$19.7 million (2013: net fair value gain of \$11.1 million), net of tax, within other comprehensive income related to the effective portion of the Group's interest rate swap contracts.

In addition, at March 31, 2014, the Group recognized a derivative financial asset associated with the call option relating to the previous €60 million of corporate bonds. During 2014, the Group recognized a loss of \$1 million associated with the early redemption of these corporate bonds.

## RISKS AND UNCERTAINTIES

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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., corporate debt, equity financing 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 expenditure. 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 the 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 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

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Etrion prepares and updates on a regular basis forecasts for project level revenues and EBITDA information regarding its operational and fully-funded solar parks. On January 17, 2014, Etrion issued forecasts for the fiscal years ending December 31, 2014 and 2015. Below is a description of the major variables that affected the 2014 and 2015 revenue and EBITDA forecasts.

### Italy

Revenue and EBITDA forecasts for the Italian operating platform are based on Etrion's 100%-owned, 60 MW solar portfolio in Italy.

Italian revenue and EBITDA in 2014 were lower in comparison with the guidance mainly due to lower solar irradiation, lower spot market prices, which decreased on average from €0.06 per kWh in 2013 to €0.04 kWh in 2014, the inclusion of asset management service fees as part of operating expenses and the significant decrease in the average exchange rate of the Euro versus the US dollar that resulted in a decline of approximately 3% in comparison with the exchange rate used in the guidance.

Italian revenue and EBITDA in 2015 are expected to be lower in comparison with the guidance mainly due to the effect of the 8% FiT reduction announced in August 2014 and effective January 1, 2015. The 8% FiT reduction results in approximately 6% less revenues per year, but this reduction is current being contested by the Company through domestic litigation against the government. In addition, other variables that may result in lower 2015 results than projected include the spot market prices, the inclusion of asset management service fees as part of operating expenses and the average exchange rate for the Euro versus the US dollar.

In Italy, revenues are received in Euros and are translated using the average €/€ exchange rate of the corresponding period. Consequently, revenues expressed in US dollars may fluctuate according to exchange rate variations.

### Chile

Revenue and EBITDA forecasts for the Chilean platform were based on Etrion's 70%-owned 70 MW operational solar park, Project Salvador, and the 100%-owned Aguas Blancas project located in northern Chile.

The revenue and EBITDA expected from Project Salvador in 2015 will fluctuate depending on the spot market prices in the SIC network. However, due to Project Salvador's early start of operations, revenue from a full year is expected in 2015 instead of the nine months projected in the January 2014 guidance. Revenue and EBITDA from Chile will be lower than the guidance due to the elimination of the original 8.8 MW Aguas Blancas solar project that was replaced by an expanded project including three sites, 2A, 2B and 2C, with a total capacity of 72 MW likely to start operations in 2016.

In Chile, revenues are calculated with reference to the US dollar, which is also the reporting currency of the Group and therefore revenue guidance is not subject to exchange rate fluctuations.

### Japan

The January 2014 guidance did not include the 87%-owned 34 MW under construction in Japan. The 9.3 MW Mito project includes five sites expected to be connected in May-August 2015, positively impacting revenue and EBITDA in 2015. In Japan, revenues are received in Japanese Yen and are translated using the ¥/\$ exchange rate of the corresponding period. Consequently, revenues expressed in US dollars may fluctuate according to exchange rate variations.

## 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

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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 and operation of the its projects in Japan and Chile, including Project Salvador, Shizukuishi and Mito and the anticipated projected electricity production, revenue and EBITDA from such projects); expectations with respect to future FiT payments in Japan; future expansion efforts in Chile, Japan and elsewhere; 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 plans for future dividend distributions. 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; uncertainties with respect to the impact of the changes to the Japanese FiT regime that came into effect in 2015; 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).



# AUDITED CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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March 18, 2015

## **Independent Auditor's Report**

### **To the Shareholders of Etrion Corporation,**

We have audited the accompanying consolidated financial statements of Etrion Corporation, which comprise the consolidated balance sheet as at December 31, 2014 and 2013 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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## **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Etrion Corporation as at December 31, 2014 and 2013 and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers SA

*"Luc Schultess"*

Luc Schulthess

*"Colin Johnson"*

Colin Johnson

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2014

Expressed in US\$'000

	Note	2014 \$'000	2013 \$'000
Revenue	6	49,628	53,911
Operating expenses	7	(23,766)	(28,480)
<b>Gross profit</b>		<b>25,862</b>	<b>25,431</b>
General and administrative expenses	8	(10,588)	(8,631)
Other income	9	508	3,081
<b>Operating profit</b>		<b>15,782</b>	<b>19,881</b>
Finance income	10	1,949	1,876
Finance costs	10	(31,584)	(29,897)
<b>Net finance costs</b>		<b>(29,635)</b>	<b>(28,021)</b>
<b>Loss before income tax</b>		<b>(13,853)</b>	<b>(8,140)</b>
Income tax expense	11	(2,602)	(2,164)
<b>Loss for the year</b>		<b>(16,455)</b>	<b>(10,304)</b>
<b>Other comprehensive (loss)/income:</b>			
<b>Items that may be subsequently reclassified to profit and loss</b>			
Gain/(loss) on currency translation	21	410	(658)
(Loss)/ gain on cash flow hedges (net of tax)	21	(19,721)	11,140
<b>Items that will not be reclassified to profit and loss</b>			
Remeasurements on post-employment benefits	26	(317)	37
<b>Total other comprehensive (loss)/income</b>		<b>(19,628)</b>	<b>10,519</b>
<b>Total comprehensive (loss)/income for the year</b>		<b>(36,083)</b>	<b>215</b>
<b>Loss attributable to:</b>			
Owners of the Company		(16,386)	(10,296)
Non-controlling interest	13	(69)	(8)
<b>Total comprehensive (loss)/income attributable to:</b>			
Owners of the Company		(35,494)	223
Non-controlling interest	13	(589)	(8)
<b>Basic and diluted loss per share</b>	12	<b>\$(0.05)</b>	<b>\$(0.05)</b>

The accompanying notes are an integral part of these consolidated financial statements.

## CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2014

Expressed in US\$'000

	Note	2014 \$'000	2013 \$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	477,655	357,644
Intangible assets	15	30,942	31,446
Deferred income tax assets	11	14,426	8,856
Trade and other receivables	17	2,822	3,464
<b>Total non-current assets</b>		<b>525,845</b>	<b>401,410</b>
<b>Current assets</b>			
Trade and other receivables	17	46,918	21,927
Cash and cash equivalents (including restricted cash)	18	95,349	94,914
<b>Total current assets</b>		<b>142,267</b>	<b>116,841</b>
<b>Total assets</b>		<b>668,112</b>	<b>518,251</b>
<b>Equity</b>			
<b>Attributable to owners of the Company</b>			
Share capital	19	111,300	34,879
Contributed surplus		11,048	10,573
Other reserves	21	(29,837)	(11,981)
Accumulated deficit		(62,468)	(45,765)
<b>Total attributable to owners of the Company</b>		<b>30,043</b>	<b>(12,294)</b>
<b>Non-controlling interest</b>	13	<b>2,887</b>	<b>956</b>
<b>Total equity</b>		<b>32,930</b>	<b>(11,338)</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	22	454,969	417,432
Derivative financial instruments	24	47,192	27,019
Deferred income tax liabilities	11	480	2,316
Provisions	25	5,221	4,195
Other liabilities	25	21,503	9,247
<b>Total non-current liabilities</b>		<b>529,365</b>	<b>460,209</b>
<b>Current liabilities</b>			
Trade and other payables	27	24,110	35,360
Current tax liabilities	11	458	757
Borrowings	22	70,282	21,152
Derivative financial instruments	24	8,203	9,110
Provisions	25	784	1,166
Other liabilities	25	1,980	1,835
<b>Total current liabilities</b>		<b>105,817</b>	<b>69,380</b>
<b>Total liabilities</b>		<b>635,182</b>	<b>529,589</b>
<b>Total equity and liabilities</b>		<b>668,112</b>	<b>518,251</b>

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Directors:

"Marco Antonio Northland"

Marco A. Northland, CEO and Director

"Aksel Azrac"

Aksel Azrac, Director

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2014

Expressed in US\$'000

	Note	Attributable to owners of the Company				Non-controlling interest	Total Equity
		Share capital	Contributed surplus	Other reserves	Accumulated deficit	Total	
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at January 1, 2013</b>		<b>33,270</b>	<b>10,430</b>	<b>(22,840)</b>	<b>(35,506)</b>	<b>(14,646)</b>	<b>(14,646)</b>
Comprehensive loss:							
- Loss for the year		-	-	-	(10,296)	(10,296)	(10,304)
- Other comprehensive loss:							
Cash flow hedges (net of tax)	21	-	-	11,366	-	11,366	11,366
Currency translation	21	-	-	(658)	-	(658)	(658)
Remeasurements on post-employment benefits	26	-	-	-	37	37	37
<b>Total comprehensive gain/(loss)</b>		<b>-</b>	<b>-</b>	<b>10,708</b>	<b>(10,259)</b>	<b>449</b>	<b>441</b>
Transactions with owners in their capacity as owners:							
- Share issuance	19	753	-	-	-	753	753
- Stock options exercised	19	856	(361)	-	-	495	495
- Written call options	21	-	-	151	-	151	151
- Share-based payments	20	-	504	-	-	504	504
- Non-controlling interest	13	-	-	-	-	964	964
<b>Balance at December 31, 2013</b>		<b>34,879</b>	<b>10,573</b>	<b>(11,981)</b>	<b>(45,765)</b>	<b>(12,294)</b>	<b>(11,338)</b>
Comprehensive loss:							
- Loss for the year		-	-	-	(16,386)	(16,386)	(16,455)
- Other comprehensive (loss)/gain:							
Cash flow hedges (net of tax)	21	-	-	(19,015)	-	(19,015)	(19,486)
Currency translation	21	-	-	459	-	459	410
Remeasurements on post-employment benefits	26	-	-	-	(317)	(317)	(317)
<b>Total comprehensive loss</b>		<b>-</b>	<b>-</b>	<b>(18,556)</b>	<b>(16,703)</b>	<b>(35,259)</b>	<b>(35,848)</b>
Transactions with owners in their capacity as owners:							
- Share issuance	19	76,280	-	-	-	76,280	76,280
- Stock options exercised	19	141	(57)	-	-	84	84
- Written call options	21	-	-	700	-	700	700
- Share-based payments	20	-	532	-	-	532	532
- Non-controlling interest	13	-	-	-	-	2,520	2,520
<b>Balance at December 31, 2014</b>		<b>111,300</b>	<b>11,048</b>	<b>(29,837)</b>	<b>(62,468)</b>	<b>30,043</b>	<b>32,930</b>

The accompanying notes are an integral part of these consolidated financial statements.



## CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE YEAR ENDED DECEMBER 31, 2014

Expressed in US\$'000

	Note	2014 \$'000	2013 \$'000
<b>Cash flow from operating activities:</b>			
<b>Loss for the year</b>		<b>(16,455)</b>	<b>(10,304)</b>
Adjustments for:			
Depreciation and amortization	7/8	16,744	20,491
Current income tax expense	11	6,298	4,647
Deferred income tax recovery	11	(3,696)	(2,483)
Share-based payment expense	8/20	493	507
Interest expense	10	17,083	16,878
Interest expense relating to interest rate swap contracts	10	9,367	9,748
Amortization of transaction costs	10	1,034	887
Equity-based financing fee	10	-	731
Foreign exchange (gain)/loss	10	(1,694)	478
Loss on derecognition of liabilities		1,002	-
Fair value changes associated with derivative financial instruments	10	2,042	(408)
Other income	9	(508)	(3,081)
Interest income	10	(145)	(759)
<b>Sub-total</b>		<b>31,565</b>	<b>37,332</b>
Changes in working capital:			
(Increase)/Decrease in trade and other receivables		(24,947)	16,488
(Decrease)/Increase in trade and other payables		(12,228)	(3,563)
Income tax paid		(5,451)	(5,758)
<b>Total cash flow (used in)/from operating activities</b>		<b>(11,061)</b>	<b>44,499</b>
<b>Cash flow from investing activities:</b>			
Purchases of property, plant and equipment		(148,514)	(7,706)
Disposal of property, plant and equipment		-	60
Proceeds from disposal of subsidiary		-	3,000
Purchases of intangible assets		(5,755)	(3,520)
<b>Total cash flow used in investing activities</b>		<b>(154,269)</b>	<b>(8,166)</b>
<b>Cash flow from financing activities:</b>			
Interest paid	22	(23,338)	(16,676)
Interest paid relating to interest rate swap contracts		(9,221)	(9,767)
Interest received		145	759
Repayment of borrowings	22	(17,537)	(27,293)
Proceeds from borrowings	22	150,518	48,185
(Repayment)/proceeds from Lundin loan facility	29	(18,394)	18,000
Proceeds from stock-options exercised		84	-
Contributions from non-controlling interest	25	15,406	5,480
Proceeds from the issuance of shares	19	76,280	495
<b>Total cash flow from financing activities</b>		<b>173,943</b>	<b>19,183</b>
<b>Net increase in cash and cash equivalents</b>		<b>8,613</b>	<b>55,516</b>
Effect of foreign exchange rate differences		(8,178)	1,648
Cash and cash equivalents (including restricted cash) at the beginning of the year		94,914	37,750
<b>Cash and cash equivalents (including restricted cash) at the end of the year</b>		<b>95,349</b>	<b>94,914</b>

The accompanying notes are an integral part of these consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2014

*Expressed in US\$'000 unless otherwise stated*

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### 1. GENERAL INFORMATION

Etrion Corporation ("Etrion" or the "Company" or, together with its subsidiaries, the "Group") is incorporated under the laws of the Province of British Columbia, Canada. The address of its registered office is 1600-925 West Georgia Street, Vancouver, British Columbia V6Z 3L2, Canada. The Company is listed on the Toronto Stock Exchange in Canada and the NASDAQ OMX Stockholm exchange in Sweden under the same ticker symbol, "ETX".

Etrion is an independent power producer that develops, builds, owns and operates solar power generation plants. The Company owns 130 megawatt ("MW") of installed solar capacity in Italy and Chile. The Company has 34 MW of solar projects under construction in Japan and is also actively developing greenfield solar power projects in Japan and Chile.

These consolidated financial statements are presented in United States ("US") Dollars ("\$"), which is the Group's presentation currency. The Company's functional currency is the Euro. However, since the Group operates in Europe, the Americas and Asia and is listed in both Canada (Primary) and Sweden (Secondary), certain financial information within the notes to these consolidated financial statements has been presented in Euros ("€"), Canadian dollars ("CAD\$"), Japanese yen ("¥") and Swedish Krona ("SEK").

The Company's Board of Directors approved these consolidated financial statements on March 18, 2015.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented unless otherwise stated.

#### (a) BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and the IFRS Interpretations Committee that are effective or available for early adoption for accounting periods beginning on January 1, 2014. The consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets and financial liabilities (i.e., derivative financial instruments that are recognized at fair value through profit or loss).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Company's management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where the assumptions and estimates are significant to the consolidated financial statements, are disclosed in [Note 3](#).

#### (b) GOING CONCERN

The Company's consolidated financial statements for the year ended December 31, 2014, have been prepared on a going concern basis, which assumes that the Group will be able to realize its assets and discharge its liabilities in the normal course of business as they become due in the foreseeable future.

At December 31, 2014, the Group had cash and cash equivalents of \$95.3 million, \$33.9 million of which was unrestricted and held at the parent level (2013: \$94.9 million and \$8.5 million, respectively) and working capital of \$36.5 million (2013: \$47.5 million). During 2014, the Group recognized a net loss of \$16.5 million (2013: \$10.3 million). However, the Company's management is confident that the Group will be able to fund its working capital requirements for at least twelve months from the date of these consolidated financial statements. In January 2014, Etrion conducted a private placement transaction that exceeded management expectations and raised gross proceeds of approximately \$80 million. In addition, in April 2014, Etrion issued and listed on the Oslo Stock Exchange new secured bonds for €80 million ("Bond Financing"). The previously existing €60 million bonds were redeemed with the proceeds from the Bond Financing in May 2014, resulting in net proceeds (excluding transaction costs) of approximately €20 million for the Company from the refinancing. Accordingly, the Group has partially secured financing for its anticipated growth and development activities. During 2014, one of the Group's Italian subsidiaries was in breach of covenants but a waiver was subsequently received from the lender banks. [Note 22](#) and [Note 31](#)

These consolidated financial statements for the year ended December 31, 2014, do not include the adjustments that would result if the Group were unable to continue as a going concern.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2014

Expressed in US\$'000 unless otherwise stated

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (c) CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

##### *New standards and amendments adopted by the Group*

There are no IFRS or International Financial Reporting Interpretations Committee ("IFRIC") interpretations that have been issued effective for financial years beginning on or after January 1, 2014, that would have a material impact on the Company's consolidated financial statements. The following standards applicable to the Group have been adopted for the first time for the financial year beginning on or after January 1, 2014:

- **Amendment to IAS 32, Financial instruments presentation:** This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the group financial statements.
- **Amendment to IAS 39, Financial instruments:** This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The group has applied the amendment and there has been no significant impact on the group financial statements as a result.
- **IFRIC 21, Levies:** This standard sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to payment of a levy and when a liability should be recognized. The Group is not currently subjected to significant levies so the impact on the Group is not material.
- **Amendments to IAS 36, Impairment of assets:** This amendment removed certain disclosures of the recoverable amount of cash generating units ("CGUs") that had been included in IAS 36 by the issue of IFRS 13.

Other standards, amendments and interpretations that are effective for the financial year beginning on January 1, 2014 are not material to the group.

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

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

- **IFRS 9, Financial Instruments:** This standard addresses the classification, measurement and recognition of financial assets and liabilities, replacing parts of IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Group has yet to assess the full impact of IFRS 9 and intends to adopt IFRS 9 no later than the accounting period beginning on or after January 1, 2018.
- **IFRS 15, Revenue from contracts with customers:** This standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts' and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017 and earlier application is permitted. The group is assessing the impact of IFRS 15.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2014

*Expressed in US\$'000 unless otherwise stated*

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (d) BASIS OF CONSOLIDATION

##### *Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method of accounting for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of the non-controlling interests over the net identifiable assets acquired and liabilities assumed. If the consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as a bargain purchase gain.

The Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportional share of the acquiree's net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Subsequent to an acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus non-controlling interests' share of subsequent changes in equity. Non-controlling interests' share of total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Inter-company transactions, balances and unrealized gains or losses on transactions between Group companies are eliminated. The accounting policies used by subsidiaries, where different from those of the Group, are amended where necessary to ensure consistency with the accounting policies adopted by the Group.

When acquiring project companies, the Company assesses whether the project company represents a business as defined by IFRS 3, Business Combinations ("IFRS 3"), or a specific asset or group of assets such as land and/or licenses. Where the project company meets the definition of a business, the acquisition method of accounting is applied. Where the project company does not meet the definition of a business, the transaction is treated as an asset acquisition. Key factors in determining whether the definition of a business is met include an assessment of inputs, processes and outputs and the stage of the project development plan at the acquisition date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2014

*Expressed in US\$'000 unless otherwise stated*

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about the facts and circumstances that existed as of the acquisition date, and is subject to a maximum period of one year ("measurement period").

Subsequent changes to the fair values of the assets acquired and liabilities assumed are adjusted against the cost of the acquisition where the changes qualify as measurement period adjustments. All other subsequent changes to the fair values of the assets acquired and liabilities assumed are accounted for in accordance with relevant IFRS. Subsequent changes to the fair value of contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional values for the items where the fair value assessment is incomplete. These provisional values are then adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the values recognized at that date.

#### *Transactions with non-controlling interests*

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the Group's share of the carrying value of the net assets is recorded within equity. Gains or losses recognized on the disposal of non-controlling interests are also recorded in equity.

#### **(e) SEGMENT REPORTING**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Board of Directors is the chief operating decision-maker responsible for making strategic decisions, allocating resources and assessing the performance of the operating segments.

#### **(f) FOREIGN CURRENCY TRANSLATION**

##### *Functional and presentation currency*

Items included in the financial statements of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company's subsidiaries is primarily the Euro. The consolidated financial statements are presented in US dollars, which is the Group's presentation currency, due to the Company's listing in North America.

Foreign exchange gains and losses are presented within finance income or costs.

##### *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuations where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies translated at the year-end exchange rate are recognized in the profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2014

Expressed in US\$'000 unless otherwise stated

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Group companies

The results and financial position of all Group entities that have a functional currency different from the presentation currency of the Group (none of which has the currency of a hyper-inflationary economy) are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet item are translated at the closing exchange rates prevailing at the balance sheet date;
- income and expenses for each statement of comprehensive income item are translated at the exchange rate at the transaction date (or the average exchange rate if this represents a reasonable approximation); and
- all resulting exchange differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate with any exchange differences recognized within other comprehensive income.

Exchange differences arising from the translation of monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation) are recognized initially in other comprehensive income. On the disposal or partial disposal of the net investment (reduction in ownership percentage), the amounts recognized in other comprehensive income are reclassified from equity to profit or loss. Management does not consider the repayment of quasi-equity loans designated as 'net investment' to qualify as a disposal and therefore no reclassification of exchange differences is made from equity to profit or loss when such repayment occurs. Where, as a result of a change in circumstances, a previously designated 'net investment' loan is settled (monetary items receivable from or payable to a foreign operation are actually repaid), the loan is de-designated and then exchange differences arising from the translation are accounted for in profit or loss from that point forward.

In preparing the consolidated financial statements, the individual financial statements of the Company's subsidiaries are translated into the functional currency of the Company, the Euro. Once the financial statements have been consolidated, they are then translated into the presentation currency, the US dollar.

Exchange rates for the relevant currencies of the Group with respect to the US dollar are as follows:

	CHF <sup>(1)</sup> /	€/	CLP <sup>(1)</sup> /	CAD\$/	¥/
	\$	\$	\$	\$	\$
Closing rate at December 31, 2014	1.01	1.21	0.0016	0.86	0.0083
Closing rate at December 31, 2013	1.12	1.38	0.0019	0.94	0.0095
Closing rate at December 31, 2012	1.09	1.32	0.0021	1.00	0.0116
Twelve month average rate December 31, 2014	1.09	1.33	0.0018	0.91	0.0095
Twelve month average rate December 31, 2013	1.08	1.33	0.0020	0.97	0.1012

Note:

(1) CHF refers to Swiss francs and CLP refers to Chilean pesos.

#### (g) PROPERTY, PLANT AND EQUIPMENT

##### Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Costs include expenditure directly attributable to the acquisition of the asset and, for self-constructed assets, the costs include material costs, direct labor and any other costs directly attributable to bringing the asset into working condition for its intended use. The cost of dismantling and removing items of property, plant and equipment and site restoration are also included as part of the cost of the relevant asset.

Borrowing costs directly attributable to the acquisition or construction of qualifying assets are capitalized. Capitalization of borrowing costs commences when the activities to prepare the asset for its intended use are undertaken and continues until the date in which development of the relevant asset is complete (i.e., connection to the electricity grid).

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items within property, plant and equipment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2014

Expressed in US\$'000 unless otherwise stated

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent costs are included in the carrying amount of an item of property, plant and equipment or as a separate asset, as appropriate, only if it is probable that the future economic benefits embodied within the item will flow to the Group and its cost can be measured reliably. The carrying amount of any replaced items of property, plant and equipment are derecognized and the cost of maintenance and repairs are charged to the profit or loss during the financial period in which they are incurred.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the profit or loss within other income and expenses.

#### Depreciation

Depreciation is recognized within operating expenses for operating solar power projects and general and administrative expenses for all other items of property, plant and equipment, in order to expense the cost of assets less their residual values over their useful lives using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period with the effect of any changes in estimates accounted for on a prospective basis. **Note 3.** Land is not depreciated.

The estimated useful lives are as follows:

	2014	2013
Solar power projects	24 years	20 years
Equipment and furniture	1-5 years	1-5 years

#### (h) INTANGIBLE ASSETS

##### Recognition and measurement

Intangible assets are measured at cost less accumulated amortization and accumulated impairment losses.

Costs include expenditures directly attributable to the acquisition of the asset and, for self-constructed assets, the costs include material costs, direct labor and any other costs directly attributable to prepare the asset for its intended use.

##### Licenses and permits

Project permits and licenses acquired through business combinations or through the acquisition of a project company accounted for as an asset acquisition are recognized at their fair values at the date of acquisition **Note 2(d)**. Project permits and licenses have a finite useful life and are carried at cost less accumulated amortization.

Amortization is calculated using the straight-line method. The estimated useful life of project permits and licenses is based on the applicable energy supply contracts which is generally 20 years. The amortization expense recognized in relation to intangible assets is included within operating expenses.

The amortization expense of permits and licenses related to the construction of solar power projects is capitalized as assets under construction within property, plant and equipment during the construction phase.

##### Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, including the fair value of non-controlling interests in the acquiree at the date of acquisition, less the fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2014

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill is not amortized and is tested for impairment at least annually. For the purposes of impairment testing, goodwill is allocated to each of the Group's CGUs expected to benefit from the synergies of the combination **Note 2(i)**. CGUs to which goodwill has been allocated are tested for impairment annually or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount, the impairment is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets on a pro-rata basis. An impairment loss recognized for goodwill is not subsequently reversed.

#### (i) IMPAIRMENT OF TANGIBLE ASSETS AND INTANGIBLE ASSETS (EXCLUDING GOODWILL)

At the end of each reporting period, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any indication of impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. CGUs are identified for each operating solar power project.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

The recoverable amount of the asset is the higher of the fair value less costs of disposal and value-in-use calculations. In assessing value-in-use calculations, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount and an impairment loss is recognized immediately in the profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in the profit or loss.

#### (j) FINANCIAL ASSETS

##### *Classification*

The Group classifies its financial assets in the following categories: at fair value through profit or loss; loans and receivables; available-for-sale; and held-to-maturity. The classification depends on the purpose for which the financial assets were acquired and the Company's management determines the classification of its financial assets at initial recognition as follows:

- **Financial assets at fair value through profit or loss:** This category includes financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as cash flow hedges. Assets in this category are classified as current assets if expected to be settled within the next twelve months or as non-current assets if expected to be settled after twelve months.
- **Loans and receivables:** This category includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets in this category are classified as current assets, except when the maturity is greater than twelve months from the reporting date, which are classified as non-current assets. The Group's loans and receivables are comprised of trade and other receivables and cash and cash equivalents.
- **Available-for-sale financial assets:** This category includes non-derivative financial assets that are either designated in this category or that are not classified in any of the other categories. Assets in this category are classified as non-current assets unless the investment matures or the Company's management intends to dispose of it within twelve months from the reporting date.
- **Held-to-maturity investments:** This category includes financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intent and ability to hold to maturity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2014

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *Recognition and measurement*

Regular purchases and sales of financial assets are recognized on the trade date. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed within finance income or costs. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value, except where the fair value cannot be measured reliably in which case the assets are carried at cost less impairment. Loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest method. Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included within finance income or costs in the period in which they arise.

#### *Impairment of financial assets*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses are only recognized if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group uses the following criteria to determine whether there is objective evidence for the recognition of an impairment loss associated with financial assets:

- significant financial difficulty of the obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; and
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets.

#### Assets carried at amortized cost

The Group first assesses whether objective evidence of impairment exists at the end of each reporting period and in the event such evidence exists, the amount of impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the impairment loss is recognized in the profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. If, in a subsequent period, the fair value of the asset carried at amortized cost increases and the increase can be objectively related to an event occurring after the impairment loss was initially recognized (such as an improvement in the debtor's credit rating), the impairment loss is reversed in the profit or loss.

#### Assets classified as available for sale

The Group uses the same criteria to assess whether there is objective evidence that a financial asset classified as available for sale is impaired, at the end of each reporting period, as outlined above for assets carried at amortized cost. However, in the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the asset is impaired. If any such evidence exists, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized, is removed from equity and recognized in the profit or loss in the period it occurs. Impairment losses relating to equity instruments recognized in the profit or loss are not subsequently reversed. However, if, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was initially recognized, the impairment loss is reversed.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2014

Expressed in US\$'000 unless otherwise stated

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *Offsetting financial instruments*

Financial assets and liabilities are offset and shown net in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

#### **(k) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES**

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction (i.e., cash flow hedge); or
- hedges that don't qualify for hedge accounting. No derivative financial instruments are used for speculative purposes.

The Group documents at the inception of the transaction, the relationship between hedging instruments and the hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in **Note 24**. Movements on the hedging reserve in other comprehensive income are shown in **Note 21**. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than twelve months and as a current asset or liability when the remaining maturity of the hedged item is less than twelve months. Trading derivatives are classified as current assets or liabilities.

#### *Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately within finance income or costs. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the profit or loss. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss finance income or costs.

#### **(l) TRADE RECEIVABLES**

Trade receivables are amounts due for solar energy produced by the Group and sold to the electricity grid operator in accordance with electricity sale contracts. If collection is expected in one year or less, they are classified as current assets. If not, they are recognized as non-current assets. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method less any provision for impairment.

#### **(m) CASH AND CASH EQUIVALENTS (INCLUDING RESTRICTED CASH)**

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities.

Restricted cash relates to cash and cash equivalents held at the project level that are restricted by the lending banks to future repayment of interest and principal and working capital requirements related to the specific project. Restricted cash and cash equivalents can be distributed from the Group's projects, subject to approval from the lending banks, either through repayment of shareholder loans or through dividend distributions.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2014

*Expressed in US\$'000 unless otherwise stated*

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (n) SHARE CAPITAL

Common shares are classified as equity. Incremental costs directly attributable to the issuance of new shares or share options are shown in equity as a deduction, net of tax, from the proceeds.

#### (o) TRADE PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

#### (p) BORROWINGS

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost using the effective interest rate method, with any difference between the proceeds (net of transaction costs) and the redemption value recognized in the profit or loss within finance costs. Since the Group's non-recourse project loans are floating rate instruments, the application of the effective interest rate method is not necessary as re-estimating the future interest payments has no significant impact on the carrying amount of the financial liability. Transaction costs incurred in acquiring a floating rate instrument are amortized using the straight-line amortization method.

Fees paid on the establishment of loan facilities are recognized as transaction costs to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. If there is no evidence to indicate that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

General and specific borrowing costs directly attributable to the acquisition or construction of qualifying assets are capitalized within property plant and equipment. Capitalization of borrowing costs commences when the activities to prepare the asset for its intended use are undertaken and continue to be capitalized until the date in which development of the relevant asset is complete (i.e., connection to the electricity grid). All other borrowing costs are recognized in the profit or loss in the period in which they are incurred.

#### (q) CURRENT AND DEFERRED INCOME TAX

The tax expense for the period comprises current and deferred income tax. Tax is recognized in the profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group operates and generates taxable income. The Company's management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements. However, deferred income tax liabilities are not recognized if they arise from the initial recognition of goodwill, and deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2014

Expressed in US\$'000 unless otherwise stated

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (r) PROVISIONS

Provisions are recognized when the Group has a present obligation (i.e., legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate of the obligation can be made. The Group recognizes a provision for the future costs expected to be incurred in relation to the decommissioning, dismantling and site restoration associated with its solar power projects in Italy with a corresponding increase in the relevant asset. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the project, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. Period charges for changes in the net present value of the provision arising from discounting (i.e., unwinding the discount) are included within finance costs.

#### (s) REVENUE RECOGNITION

Revenue is recognized upon delivery of electricity produced to the local operator of the electricity grid. Delivery is deemed complete when all the risks and rewards associated with ownership have been transferred to the buyer as contractually agreed, compensation has been contractually established and collection of the resulting receivable is probable. Revenues from the sale of electricity are recognized at the time the electricity is supplied on the basis of periodic meter readings. Revenues are recognized net of value added tax ("VAT") and rebates. Revenues are measured at the fair value of the consideration received or receivable, which is calculated based on the price of electricity established in the contract. Revenues obtained from solar power plants that are still within the testing period (the time interval to bring the asset to the intended use conditions) are deducted from capitalized costs.

#### (t) INTEREST INCOME

Interest income is recognized using the effective interest method. When a loan or receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognized using the original effective interest rate.

#### (u) SHARE-BASED PAYMENT

##### *Stock-options*

The Company operates an equity-settled, share-based compensation plan under which the entity receives services from employees, consultants, directors and officers as consideration for equity instruments (i.e., options) of the Company. The total amount to be expensed within general and administrative expenses is determined by reference to the fair value of the options granted. The fair value of share-based payments is determined using the Black-Scholes option-pricing model. When a stock option is exercised, the Company recognizes an increase in its share capital equivalent to the consideration paid by the option holder and the amount previously recognized in equity within contributed surplus. The fair value of any stock options granted to employees, consultants, directors and officers of the Group is recorded as an expense over the vesting period of the options granted, which is the period over which all of the specified vesting conditions are to be satisfied, with a corresponding increase in equity within contributed surplus.

##### *Restricted share units (RSUs)*

The Company also operates an equity-settled, share-based compensation plan under which the entity receives services from employees, consultants, directors and officers as consideration for equity instruments (i.e., shares) of the Company. The Board of Directors of the Company has, in its sole discretion, the option to settle the RSUs in either treasury shares, cash or through open market share purchases. The total amount to be expensed within general and administrative expenses is determined by reference to the fair value of the options granted. The fair value of non-market performance and service condition grants is determined using the share market price at the date of grant. The fair value of grants with market performance conditions is calculated using an adjusted share market price calculated with a valuation model that incorporates all the variables included in the market conditions. Once the fair value is calculated this is not reassessed since the valuation model includes the value of all possible outcomes including the possibility that the grant is never exercised.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2014

*Expressed in US\$'000 unless otherwise stated*

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The fair value of any RSUs granted to employees, consultants, directors and officers of the Group is recorded as an expense over the vesting period of the RSUs granted, which is the period over which all of the specified vesting conditions are to be satisfied, with a corresponding increase in equity within contributed surplus. For grants with non-market performance conditions, management assesses the vesting conditions and adjust the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the expense amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

#### (v) EMPLOYEE BENEFITS

##### *Pension obligations*

The Group's Swiss subsidiary has a defined benefit pension plan that is managed through a private fund. Independent actuaries determine the cost of the defined benefit plan on an annual basis, and the Swiss subsidiary pays the annual insurance premium. The fund provides benefits coverage to the employees in the event of retirement, death or disability. The Group's Swiss subsidiary and its employees jointly finance retirement and risk benefit contributions. As per the agreement, the Swiss subsidiary contributes between 60% and 67% of the monthly pension costs, and the remaining balance is deducted from the employees' pay.

##### *Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal; or (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

### 3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In connection with the preparation of the Company's consolidated financial statements, the Company's management has made assumptions and estimates about future events and applied judgments that affect the reported values of assets, liabilities, revenues, expenses and related disclosures. The 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.

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

#### (a) IMPAIRMENT OF GOODWILL, PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The Group assesses goodwill for impairment on an annual basis and property, plant and equipment and intangible assets when indicators of impairment exist using value-in-use calculations. The value-in-use calculations are based on the forecasted earnings before interest, tax, depreciation and amortization ("EBITDA") over the expected life derived from the business models developed by the Company's management to value the projects. The assumptions used are consistent with external sources of information and reflect past experience. These business models include various assumptions such as future market prices for solar energy, the forecasted rate of inflation to estimate future operating costs and operating variables such as irradiation, degradation and transfer losses estimated by the Group's internal engineers based on historical atmospheric conditions in the areas where the projects are located. For the purposes of the Group's impairment assessment performed at December 31, 2014, the discount rate used was 7.1% (2013: 7.3%), representing the Group's pre-tax weighted average cost of capital, and no growth rate was applied (as the Group's operating solar power projects are operating at full capacity). The value-in-use calculations used to value the Group's solar power projects are complex and include a wide number of operating and financial variables and assumptions that are subject to change as economic and market conditions vary. At December 31, 2014, no impairment was provided in relation to the Group's previously recognized goodwill, property, plant and equipment and intangible assets. **Note 14** and **Note 15**. A 2% increase in the Group's discount rate (to 9.1%) would have resulted in no impairment loss being recognized in 2014.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2014

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### 3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

#### (b) FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

In determining the fair value of the Group's financial instruments, the Company's management uses judgment to select a variety of methods and verifies assumptions that are mainly based on market conditions existing at the balance sheet date. Where possible, the Company's management also obtains fair value measurements from third parties. The fair value of 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. At December 31, 2014, the Group recognized financial liabilities of \$55.4 million (2013: \$36.1 million) associated with its derivative financial instruments [Note 24](#). Refer also to [Note 4\(c\)](#) for a summary of the valuation techniques used by the Group.

#### (c) DEFERRED INCOME TAX ASSETS

The Group accounts for differences that arise between the carrying amount of assets and liabilities and their tax bases in accordance with *IAS 12, Income Taxes*, which requires deferred income tax assets only to be recognized to the extent that is probable that future taxable profits will be available against which the temporary differences can be utilized. The Company's management estimates future taxable profits based on the business models used to value the solar power projects as described in the [Note 3\(a\)](#). Any change to the estimates and assumptions used for the key operational and financial variables used within the business models could affect the amount of deferred income tax assets recognized by the Group. At December 31, 2014, the Group recognized \$13.9 million (2013: \$6.5 million) of net deferred income tax assets. [Note 11](#)

### 4. FINANCIAL RISK MANAGEMENT

#### (a) CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing returns to stakeholders by increasing its operating capacity and cash flow with new projects. The capital structure of the Group consists of net debt (i.e., current and non-current borrowings less cash and cash equivalents) and equity (i.e., issued share capital, reserves and accumulated deficit).

The Group's objectives when managing the capital structure are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain flexibility and liquidity for investment opportunities in the renewable energy segment. The Company's Board of Directors reviews the capital structure of the Group throughout the year and, as part of this review, considers the cost of capital and the risks associated with each class of capital. This review specifically focuses on the gearing ratio and working capital requirements at the corporate level. These objectives are primarily met through cash management and continuous review of attractive acquisition and development opportunities. In order to maintain or maximize the capital structure of the Group at the corporate level, the Group may raise additional funds through equity financing, long-term corporate debt or project-based financing or sell assets in order to manage debt levels or pursue additional opportunities within the renewable energy segment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2014

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### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group's gearing ratio is as follows:

	2014 \$'000	2013 \$'000
Borrowings <a href="#">Note 22</a>	525,251	438,584
Non-recourse project loans <a href="#">Note 22</a>	(428,542)	(354,634)
<b>Net corporate borrowings</b>	<b>96,709</b>	<b>83,950</b>
Unrestricted cash and cash equivalents <a href="#">Note 18</a>	(33,886)	(8,511)
<b>Net debt</b>	<b>62,823</b>	<b>75,439</b>
Equity attributable to owners of the Company	30,043	(12,294)
Fair value losses associated with derivative financial instruments <a href="#">Note 21</a>	30,332	11,317
<b>Adjusted equity</b>	<b>60,375</b>	<b>(977)</b>
<b>Total capital</b>	<b>123,198</b>	<b>74,462</b>
<b>Gearing ratio</b>	<b>51%</b>	<b>101%</b>

A decrease in the Group's gearing ratio from 101% at December 31, 2013, to 51% at December 31, 2014, was primarily due to the equity financing completed in January 2014 for gross proceeds of approximately \$80.0 million, partially offset by the net loss of \$16.5 million during 2014. [Note 19](#)

#### (b) FINANCIAL RISK MANAGEMENT OBJECTIVES

The Group is exposed to a variety of financial risks relating to its operations in Italy, Chile and Japan. These risks include market risk (interest rate risk, foreign currency risk, and 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 currency exchange rates and interest rates, and seeks to minimize potential adverse effects on the Group's financial performance. The Group seeks to minimize the effects of these risks primarily by using derivative financial instruments to hedge interest risk exposures.

The Company's management carries out risk management procedures with guidance from the Audit Committee. The Board of Directors also provides regular guidance on the Group's overall risk management procedures.

#### *Market risk*

##### Interest rate risk

The Group is highly leveraged through financing at the project and corporate level for the construction of its solar power projects. The Group enters into non-recourse project loans issued at variable interest rates with financial institutions that provide financing for up to 85% of the total project costs. In addition, in April 2014, the Group issued \$96.7 million (€80 million) of new corporate bonds in the Norwegian bond market with a fixed rate of interest.

The Group is exposed to interest rate risks associated with its non-recourse project loans in Italy and Japan as these are floating rate instruments. These risks are mitigated through the Company's hedging strategy. The Group is not exposed to interest rate risks associated with the corporate bond and non-recourse loans in Chile as these are fixed-rate instruments.

The Group manages its cash flow and interest rate risks by using floating-to-fixed interest rate swap contracts, primarily entered into with the same financial institutions providing the underlying debt facility. These interest rate swap contracts have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swap contracts, the Group agrees to exchange at specified intervals the difference between the fixed contract rates and floating interest rates calculated by reference to the agreed notional amounts. The fair value of the interest rate swap contracts at the end of each reporting period is determined by discounting the future cash flows using forward interest rate curves at the balance sheet date.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

The following tables show the sensitivity analysis on the profit or loss if interest rates on Euro and Japanese Yen denominated borrowings change by 10 basis points ("bps") with all other variables held constant.

		+10 bps shift in interest rate curve		-10 bps shift in interest rate curve	
	Carrying amount	Impact on profit/(loss)	Impact on other comprehensive income	Impact on profit/(loss)	Impact on other comprehensive income
At December 31, 2014					
Societe Generale and Dexia	31,050	-	-	-	-
BIIS, Societe Generale and Portigon	108,478	(1)	-	1	-
Barclays	39,468	-	-	-	-
UBI Banca	12,862	(2)	-	2	-
Natixis and Portigon	62,321	(7)	-	7	-
Sumitomo Mitsui Trust Bank	10,339	-	-	-	-
Total impact	264,518	(10)	-	10	-
Derivative financial instruments	55,395	-	1,947	-	(1,970)
Total net impact	319,913	(10)	1,947	10	(1,970)
At December 31, 2013					
Societe Generale and Dexia	37,171	-	-	-	-
BIIS, Societe Generale and Portigon	129,198	(8)	-	8	-
Barclays	50,162	(5)	-	5	-
UBI Banca	15,863	(2)	-	2	-
Natixis and Portigon	74,037	(10)	-	10	-
Total impact	306,431	(25)	-	25	-
Derivative financial instruments	30,129	-	2,028	-	(2,049)
Total net impact	336,560	(25)	2,028	25	(2,049)

#### Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro, Swiss franc, US dollar, Japanese yen and Chilean peso. The Group's foreign currency exposure is due primarily to intercompany borrowings made in Euros and US dollars to subsidiaries that have a different functional currency. The Group does not undertake hedging arrangements to mitigate the foreign currency exposure on its net investments in foreign operations or on income from foreign operations in order to hedge the risk of foreign currency variations. However, the Group considers foreign currency risk limited due to the fact that monetary assets and liabilities held by the Group's subsidiaries are primarily held in the individual subsidiaries' functional currency.

#### Price risk

The majority of revenues generated by the Group's solar power projects in Italy are secured by long-term contracts based on a feed-in-tariff ("FIT"). The Group is exposed to price risks associated with the electricity sold at the spot rate. These market revenues represented 11% and 15% of total revenues during 2014 and 2013, respectively.

#### Credit risk

Credit risk mainly arises from cash and cash equivalents and derivative financial instruments, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only high and medium rated institutions operating in local markets are accepted (see table below). The sale of electricity is made to the state-owned utility companies, and therefore the Company's management considers the credit risk associated with trade receivables to be insignificant.

The carrying amount of financial assets net of impairment represents the Group's maximum exposure to credit risk. The Group does not have policies in place to assign internal ratings or to set credit limits to its counterparties.

The credit risk on liquid funds (i.e., cash and cash equivalents) and derivative financial instruments (i.e., interest rate swap contracts) is considered to be limited due to the fact that counterparties are financial institutions with high and medium credit ratings assigned by international credit agencies.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

The credit quality of financial assets that are neither past due nor impaired at December 31, 2014, can be assessed by reference to external credit ratings, if available, as follows:

	2014 \$'000	2013 \$'000
<b>Cash and cash equivalents (including restricted cash):</b>		
AA-	21,183	7,121
A+	4,714	-
A	38,649	64,680
A-	-	320
BBB+	24,910	14,069
BBB	-	7,166
BBB-	1,062	1,037
BB	4,831	-
Other	-	521
<b>Total cash and cash equivalents (including restricted cash)</b>	<b>95,349</b>	<b>94,914</b>

#### Liquidity risk

The Company's management performs cash flow forecasting in order to ensure that sufficient cash is available to meet operational needs at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities and by matching maturity profiles of financial assets and liabilities. The Company's management monitors the Group's liquidity position taking into consideration the Group's debt financing plans and covenant compliance. [Note 22](#)

The following table analyses the Group's financial liabilities based on the remaining period outstanding at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curve existing at the balance sheet date.

	Carrying amount \$'000	Contractual Amount \$'000	Less than 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000	Total \$'000
<b>At December 31, 2014</b>						
Borrowings	525,251	645,849	20,952	249,211	375,686	645,849
Interest rate swap contracts	55,395	55,395	8,183	30,313	16,899	55,395
Trade and other payables	24,110	24,110	24,110	-	-	24,110
<b>Total financial and non-financial liabilities</b>	<b>604,756</b>	<b>725,354</b>	<b>53,245</b>	<b>279,524</b>	<b>392,585</b>	<b>725,354</b>
<b>At December 31, 2013</b>						
Borrowings	438,584	582,251	46,854	209,207	326,190	582,251
Interest rate swap contracts	36,129	36,129	9,108	23,128	3,893	36,129
Trade and other payables	35,360	35,360	35,360	-	-	35,360
<b>Total financial and non-financial liabilities</b>	<b>510,073</b>	<b>653,740</b>	<b>91,322</b>	<b>232,335</b>	<b>330,083</b>	<b>653,740</b>

#### (c) FAIR VALUE ESTIMATION

The Group's financial instruments carried at fair value are classified within the following measurement hierarchy depending on the valuation technique used to estimate their fair values:

- **Level 1:** includes fair value measurements derived from quoted prices (i.e., unadjusted) in active markets for identical assets or liabilities. The fair values of financial instruments traded in the active market are based on quoted market prices at the balance sheet date. At December 31, 2014 and 2013, the Group had no financial instruments classified as Level 1.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2014

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### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

- **Level 2:** includes fair value measurements derived from inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices). The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques that maximize the use of observable market data, where it is available, and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. At December 31, 2014 and 2013, the Group's interest rate swap contracts were classified as Level 2 and the fair value of such instruments was calculated as the present value of the estimated future cash flows, calculated 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. **Note 24**
- **Level 3:** includes fair value measurements derived from valuation techniques that include inputs for assets or liabilities that are not based on observable market data (i.e., unobservable inputs). At December 31, 2014 and 2013, the Group had no financial instruments classified as Level 3.

The Group's assets and liabilities that are measured at fair value are as follows:

	2014 \$'000	2013 \$'000
<b>Financial liabilities</b>		
<b>Level 2:</b>		
- Derivatives used for hedging	55,395	36,129
<b>Total financial liabilities</b>	<b>55,395</b>	<b>36,129</b>

At December 31, 2014 and 2013, the Group had no financial instruments classified as Level 1 and Level 3.

### 5. SEGMENT REPORTING

The Company's management has determined the operating segments based on reports reviewed by the Board of Directors used to make strategic decisions. The Board of Directors considers reportable segments from a products and services perspective and measures performance based on EBITDA. The Company's management has identified one reportable segment, the renewable energy segment, which includes the Group's solar power projects. While the Company's management has determined that the Company has only one reportable segment, the Company has decided to disclose the additional information below regarding corporate expenses as the Company believes that this information is useful for readers of the consolidated financial statements.

The Group's electricity is sold to the Italian state-owned company, Gestore Servizi Energetici ("GSE") and also in the Chilean electricity market.

The Group's revenues, EBITDA and results can be presented as follows:

	2014			2013		
	Renewable energy \$'000	Corporate and other \$'000	Total \$'000	Renewable energy \$'000	Corporate and other \$'000	Total \$'000
Revenue	49,628	-	49,628	53,911	-	53,911
Operating expenses	(7,374)	-	(7,374)	(8,359)	-	(8,359)
General and administrative expenses	(1,156)	(9,080)	(10,236)	(1,554)	(6,707)	(8,261)
Other income	463	45	508	(134)	3,215	3,081
<b>EBITDA</b>	<b>41,561</b>	<b>(9,035)</b>	<b>32,526</b>	<b>43,864</b>	<b>(3,492)</b>	<b>40,372</b>
Depreciation and amortization	(16,392)	(352)	(16,744)	(20,121)	(370)	(20,491)
Finance income	86	1,863	1,949	1,871	5	1,876
Finance costs	(20,925)	(10,659)	(31,584)	(20,893)	(9,004)	(29,897)
<b>Income/(loss) before income tax</b>	<b>4,330</b>	<b>(18,183)</b>	<b>(13,853)</b>	<b>4,721</b>	<b>(12,861)</b>	<b>(8,140)</b>
Income tax expense	(2,179)	(423)	(2,602)	(1,752)	(412)	(2,164)
<b>Net income/(loss)</b>	<b>2,151</b>	<b>(18,606)</b>	<b>(16,455)</b>	<b>2,969</b>	<b>(13,273)</b>	<b>(10,304)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2014

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### 5. SEGMENT REPORTING (CONTINUED)

The Group's assets and liabilities can be presented as follows:

	2014			2013		
	Renewable Corporate and energy \$'000	other \$'000	Total \$'000	Renewable Corporate and energy \$'000	other \$'000	Total \$'000
Property, plant and equipment	477,414	241	477,655	357,413	231	357,644
Intangible assets	25,168	5,774	30,942	26,009	5,437	31,446
Cash and cash equivalents (including restricted cash)	61,463	33,886	95,349	86,403	8,511	94,914
Other assets	61,771	2,395	64,166	27,433	6,814	34,247
<b>Total assets</b>	<b>625,816</b>	<b>42,296</b>	<b>668,112</b>	<b>497,258</b>	<b>20,993</b>	<b>518,251</b>
Borrowings	428,542	96,709	525,251	354,634	83,950	438,584
Trade and other payables	19,885	4,225	24,110	10,712	24,648	35,360
Other liabilities	83,836	1,985	85,821	54,180	1,616	55,796
<b>Total liabilities</b>	<b>532,263</b>	<b>102,919</b>	<b>635,182</b>	<b>419,526</b>	<b>110,214</b>	<b>529,740</b>

The Group's revenue and non-current assets by geographical location are as follows:

	Revenue		Non-current assets	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Italy	49,628	53,911	305,982	363,589
Chile	-	-	189,028	23,749
Switzerland	-	-	363	308
Japan	-	-	13,965	2,052
Other	-	-	2,081	2,856
<b>Total</b>	<b>49,628</b>	<b>53,911</b>	<b>511,419</b>	<b>392,554</b>

Note:

(1) Non-current assets shown in the table above exclude deferred income tax assets and financial assets. [Note 11](#)

The Group's country of domicile is Canada. However, all revenues from external customers are derived from Italy and Chile. All of the Italian subsidiaries' electricity is sold to the Italian state-owned company, GSE. The electricity produced in Chile is sold at spot prices in the country's electricity market.

### 6. REVENUE

	2014 \$'000	2013 \$'000
FiT revenue	44,132	45,922
Market Price revenue	5,496	7,989
<b>Total revenue</b>	<b>49,628</b>	<b>53,911</b>

The Group's operating revenues arise from the sale of electricity to the electricity grid in Italy. The Italian FiT is a 20-year commitment from the government to purchase 100% of the solar production at a constant premium rate. This amount is received directly from the Italian government through the state-owned company GSE. The spot market price ("Market Price") is received in addition to the FiT, based on evacuated production (i.e., electricity produced less transmission losses).

Solar-related revenues experience seasonality over the year due to the variability of daily sun hours in the summer versus winter months. The impact of seasonality on the Group's business is expected to decrease over time as the Group secures additional projects in Chile, which will give the Company production in both the northern and southern hemispheres. [Note 14](#)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2014

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### 7. OPERATING EXPENSES

	2014 \$'000	2013 \$'000
Operation and maintenance ("O&M") costs	2,719	3,464
Operating personnel costs	1,045	1,032
Depreciation and amortization (operating solar power projects)	16,392	20,121
Taxes (other than income tax)	1,948	1,880
Insurance	367	434
Land lease <a href="#">Note 28</a>	212	211
Other operating expenses	1,083	1,338
<b>Total operating expenses</b>	<b>23,766</b>	<b>28,480</b>

O&M costs of \$2.7 million (2013: \$3.4 million) relate to fees paid in connection with the operation and maintenance activities of the Group's solar power projects in Italy. The Group outsources these O&M services to third parties. Operating expenses decreased in 2014 mainly due to the change in the estimated useful life of the Group's solar power plants in Italy and also due to the revision of the shared revenue clause with the O&M contractor, the outcome of which was in the favor of two of the Group's Italian subsidiaries. [Note 25](#)

Depreciation and amortization of \$16.4 million (2013: \$20.1 million) relates to the Group's operating solar power projects producing electricity during the year. During 2014, the Company modified the useful life estimate of its operational assets in Italy from the original 20 years to approximately 24 years estimate, due to changes in the expected operational use of the solar plants and also due to changes in the regulatory environment. Depreciation and amortization associated with the Group's corporate assets is included within general and administrative expense. [Note 8](#)

### 8. GENERAL AND ADMINISTRATIVE EXPENSES

	2014 \$'000	2013 \$'000
Salaries and benefits	4,324	3,042
Pension costs <sup>(1)</sup>	151	136
Board of Directors fees	335	344
Share-based payment expense (non-cash item) <a href="#">Note 20</a>	493	507
Corporate and professional fees	2,852	2,729
Listing, filing and marketing expenses	440	334
Depreciation and amortization (corporate assets)	352	370
Office lease expenses <a href="#">Note 28</a>	443	477
Office, travel and other general and administrative expenses	1,198	692
<b>Total general and administrative expenses</b>	<b>10,588</b>	<b>8,631</b>

Note:

- (1) Pension costs of \$64,000 associated with business development personnel directly attributable to the Group's business development activities were capitalized within intangible assets during the year. Total pension costs incurred by the Group during the year were \$0.2 million. [Note 26](#)

During 2014, general and administrative expenses of \$3.9 million (2013: \$3.4 million) representing internally-generated costs of \$1.3 million (2013: \$2.0 million) and third-party costs of \$2.6 million (2013: \$1.4 million) were capitalized during the period within intangible assets as they directly related to the Group's business development activities in Chile and Japan. [Note 15](#)

### 9. OTHER INCOME

	2014 \$'000	2013 \$'000
Gain on disposal of subsidiary	-	3,919
Impairment related to business development activities	-	(825)
Right of use <a href="#">Note 25</a>	65	48
Liquidation damages	-	96
Other	443	(157)
<b>Total other income</b>	<b>508</b>	<b>3,081</b>

In October 2013, Etrion sold all of its shares in its previously wholly-owned subsidiary, PFC Oil & Gas, CA ("PFC"), for total cash consideration of \$5.0 million. The non-core assets were carried on Etrion's balance sheet at \$1.1 million at the disposal date resulting in a net gain of \$3.9 million in the sale transaction.

During 2014, the Group recognized a gain of \$0.2 million (2013: nil) from the renegotiation of the shared revenue clause applicable to two of the Group's solar power projects in Italy. [Note 25](#)



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2014

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### 10. FINANCE INCOME AND COSTS

	2014 \$'000	2013 \$'000
<b>Finance income:</b>		
Changes in fair values of derivative financial instruments:		
- Ineffective portion reclassified from other comprehensive income <a href="#">Note 21</a>	110	1,116
Foreign exchange gain	1,694	-
Other finance income	145	760
<b>Total finance income</b>	<b>1,949</b>	<b>1,876</b>
<b>Finance costs:</b>		
Interest rate expense:		
- Credit facilities and non-recourse loans <a href="#">Note 22</a>	15,756	9,479
- Interest rate swap contracts associated with non-recourse loans <a href="#">Note 22/24</a>	9,367	9,748
- Corporate bond <a href="#">Note 22/29</a>	8,410	7,172
- Credit facility with related party (Lundin family) <a href="#">Note 29</a>	176	215
- Credit facility with non-controlling interest <a href="#">Note 25</a>	972	12
- Amortization of transaction costs	1,386	887
<b>Changes in fair values of derivative financial instruments:</b>		
- De-designated portion reclassified from other comprehensive income <a href="#">Note 21</a>	347	347
- Ineffective portion reclassified from other comprehensive income <a href="#">Note 21</a>	1,105	210
- Written call option <a href="#">Note 21</a>	700	151
Equity-based fee <a href="#">Note 19/29</a>	-	731
Loss on derecognition of liability <a href="#">Note 22</a>	1,002	-
Foreign exchange loss	-	478
Other finance costs	946	630
<b>Total finance costs before deducting amounts capitalized</b>	<b>40,167</b>	<b>30,060</b>
Amounts capitalized on qualifying assets <a href="#">Note 14</a>	(8,583)	(163)
<b>Total finance costs</b>	<b>31,584</b>	<b>29,897</b>
<b>Net finance costs</b>	<b>29,635</b>	<b>28,021</b>

The Group has seven credit facilities outstanding in Italy and Japan that were used to finance the construction of its operating solar power projects and are hedged using interest rate swap contracts. The Group has also entered into fixed-rate credit facilities in order to finance the construction of its solar power plants in Chile. Applicable borrowing costs have been capitalized as assets under construction within property, plant and equipment.

During 2014, the Group recognized a net fair value loss of \$19.7 million (2013: net fair value gain of \$11.1 million), net of tax, within other comprehensive income related to the effective portion of the Group's interest rate swap contracts.

In addition, during 2014, the Group recognized a \$1.0 million loss due to the call option premium and unamortized transactions costs associated with the early redemption of the previously outstanding €60 million principal amount of corporate bonds. [Note 22](#)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2014

*Expressed in US\$'000 unless otherwise stated***11. INCOME TAXES****(a) INCOME TAX EXPENSE**

	2014 \$'000	2013 \$'000
<b>Current income tax expense:</b>		
Corporate income tax	4,749	3,087
Provincial income tax	1,549	1,560
<b>Total current income tax expense</b>	<b>6,298</b>	<b>4,647</b>
<b>Deferred income tax recovery:</b>		
Temporary differences	(195)	968
Tax benefits recognized during the year	(3,501)	(3,451)
<b>Total deferred income tax recovery</b>	<b>(3,696)</b>	<b>(2,483)</b>
<b>Total income tax expense</b>	<b>2,602</b>	<b>2,164</b>

The Group recognized an income tax expense of \$5.9 million (2013: \$4.6 million) associated with its Italian solar power projects and an income tax expense of \$0.4 million (2012: \$0.1 million) associated with its management services subsidiaries. In addition, the Group recognized a deferred income tax recovery of \$0.2 million (2013: deferred income tax expense of \$0.9 million) in relation to temporary differences arising between the tax bases of assets and liabilities and their carrying amounts and a deferred income tax recovery of \$3.5 million (2013: \$3.5 million) associated with unutilized tax losses related to interest expense carried forward in Italy (i.e., excess over 30% of EBITDA).

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 going forward. The removal of the Robin Hood tax reduces 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%. In 2011, the Robin Hood tax was expanded to include renewable energy companies. In 2013, the Italian government lowered the revenue threshold for the application of the surtax. In 2014, the government reduced the surtax, thereby reducing the overall income tax rate from 38% to 34%. 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. Management has used the revised corporate tax of 27.5% to measure deferred tax assets and liabilities as at December 31, 2014.

The Group's income tax expense is reconciled to the loss before tax at the Canadian statutory tax rate as follows:

	2014 \$'000	2013 \$'000
<b>Loss before tax</b>	<b>(13,853)</b>	<b>(8,140)</b>
Income tax expense calculated at 26.00% (2013: 25.75%)	(3,602)	(2,096)
<b>Tax effects of:</b>		
Non-deductible expenses	4,543	3,649
Effect of non-taxable income	(517)	(643)
Tax losses not recognized	1,861	2,598
Differences in foreign tax rates	955	(37)
Other	(638)	(1,307)
<b>Total income tax expense</b>	<b>2,602</b>	<b>2,164</b>

**(b) CURRENT INCOME TAX LIABILITIES**

	2014 \$'000	2013 \$'000
Corporate income tax	251	654
Provincial income tax	207	103
<b>Total current income tax liabilities</b>	<b>458</b>	<b>757</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2014

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### 11. INCOME TAXES (CONTINUED)

#### (c) DEFERRED INCOME TAX

The movements in deferred income tax assets and liabilities during 2014 were as follows:

	Opening balance \$'000	Profit or loss \$'000	Other comprehensive income \$'000	Exchange differences \$'000	Recognized directly in equity \$'000	Reclassifications \$'000	Closing balance \$'000
<b>Taxable temporary differences:</b>							
Property, plant and equipment	1,697	(114)		(1,922)		378	39
Intangible assets	619	(123)	-	(83)		28	441
<b>Total deferred income tax liability</b>	<b>2,316</b>	<b>(237)</b>	<b>-</b>	<b>(2,005)</b>	<b>-</b>	<b>406</b>	<b>480</b>
<b>Deductible temporary differences:</b>							
Property, plant and equipment	-	208	-	(32)	-	(176)	-
Intangible assets	-	(358)	-	(32)	-	390	-
Tax losses carried forward	-	(131)	-	(20)	-	151	-
Income expense carried forward	6,152	4,028	-	(1,570)	-	(145)	8,465
Derivative financial instruments	1,903	391	5,262	(1,891)	(118)	-	5,547
Provisions	-	(153)	-	(22)	170	186	181
Special tax credits	801	(517)	-	(51)	-	-	233
<b>Total deferred income tax asset</b>	<b>8,856</b>	<b>3,468</b>	<b>5,262</b>	<b>(3,618)</b>	<b>52</b>	<b>406</b>	<b>14,426</b>
<b>Net deferred income tax asset</b>	<b>6,540</b>	<b>3,705</b>	<b>5,262</b>	<b>(1,613)</b>	<b>52</b>	<b>-</b>	<b>13,946</b>

The movements in deferred income tax assets and liabilities during 2013 were as follows:

	Opening balance \$'000	Profit or loss \$'000	Other comprehensive income \$'000	Exchange differences \$'000	Recognized directly in equity \$'000	Reclassifications \$'000	Closing balance \$'000
<b>Taxable temporary differences:</b>							
Property, plant and equipment	673	349	-	700	-	(25)	1,697
Intangible assets	937	(101)	-	30	-	(247)	619
<b>Total deferred income tax liability</b>	<b>1,610</b>	<b>248</b>	<b>-</b>	<b>730</b>	<b>-</b>	<b>(272)</b>	<b>2,316</b>
<b>Deductible temporary differences:</b>							
Property, plant and equipment	-	(22)	-	5	-	17	-
Intangible assets	-	(367)	-	25	-	342	-
Tax losses carried forward	204	(68)	-	12	-	(148)	-
Interest expense carried forward	3,459	2,679	-	419	-	(405)	6,152
Derivative financial instruments	5,350	(201)	(3,654)	521	(113)	-	1,903
Provisions	129	(63)	-	12	-	(78)	-
Special tax credits	-	772	-	29	-	-	801
<b>Total deferred income tax asset</b>	<b>9,142</b>	<b>2,730</b>	<b>(3,654)</b>	<b>1,023</b>	<b>(113)</b>	<b>(272)</b>	<b>8,856</b>
<b>Net deferred income tax (liability)/asset</b>	<b>7,532</b>	<b>2,482</b>	<b>(3,654)</b>	<b>293</b>	<b>(113)</b>	<b>-</b>	<b>6,540</b>

Deferred income tax assets and liabilities that relate to the same fiscal authority have been offset (as there is a legally enforceable right to offset the current tax assets against the current tax liabilities).

At December 31, 2014, deferred income tax assets and liabilities of \$14.4 million and \$0.5 million, respectively (2013: \$8.9 million and \$2.3 million, respectively) were expected to be recovered more than twelve months after the balance sheet date. At December 31, 2014, the Group had unrecognized deferred income tax assets in respect of tax losses associated with Canada, Chile, Japan and Luxembourg of \$165.1 million (2013: \$17.3 million), of which \$1.9 million (2013: \$4.9 million) expires between one and ten years, \$25.3 million (2013: \$3.3 million) expires between ten and twenty years and \$137.9 million (2013: \$9.1 million) has no expiry. In addition, at December 31, 2014, the Group had unrecognized deferred income tax assets of \$0.2 million (2013: \$0.2 million) in respect of temporary differences associated with its Swiss pension.

In addition, during 2014, the Group recognized an income tax expense of \$5.0 million (2013: \$3.6 million) within other comprehensive income associated with its derivative financial instruments (i.e., interest rate swap contracts).

**Note 21**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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### 12. LOSS PER SHARE

Basic and diluted loss per share is calculated by dividing the net loss for the year attributable to owners of the Company by the weighted average number of shares outstanding during the year. The calculation of basic and diluted loss per share is as follows:

	2014 \$'000	2013 \$'000
Loss attributable to owners of the Company	(16,386)	(10,296)
	<b>Number of shares</b>	
Weighted average number of shares outstanding	324,092,976	206,469,666
<b>Basic and diluted loss per share</b>	<b>\$(0.051)</b>	<b>\$(0.050)</b>

Diluted loss per share equals basic loss per share as, due to losses incurred in 2014 and 2013, there is no dilutive effect from the existing stock options. [Note 20](#)

### 13. NON-CONTROLLING INTERESTS

Below is a summary of the financial information relating to PV Salvador SpA ("Salvador"), Shizukuishi Solar Power GK ("Shizukuishi") and Etrion Energy 1 GK ("Mito"), the Group's subsidiaries in which there is a non-controlling interest ("NCI").

Salvador is a Chilean entity that owns the licenses and permits to build and operate a 70 MW solar power plant in northern Chile ("Project Salvador"). Salvador is initially owned 70% by Etrion, 20% by Total Energie Developpement ("Total") and 10% by Solventus Chile SpA ("Solventus").

Shizukuishi and Mito are Japanese entities that own the licenses and permits to build and operate solar parks in Japan totaling 34 MW ("the Shizukuishi and Mito Projects"). Shizukuishi and Mito are approximately 87% owned by Etrion and 13% owned by Hitachi High-Tech ("HHT"). The Shizukuishi and Mito Projects are under construction and are expected to be operational by the end of 2016 and 2015, respectively. The summarized current and non-current assets/(liabilities) of the entities in which there is a non-controlling interest are as follows:

	December 31, 2014			December 31, 2013		
	Current	Non-current	Net	Current	Non-current	Net
Salvador	13,087	(4,286)	8,801	46,846	(43,658)	3,188
Shizukuishi	6,845	(5,502)	1,343	-	-	-
Mito	6,820	(6,270)	550	-	-	-
<b>Total net assets/(liabilities)</b>	<b>26,752</b>	<b>(16,058)</b>	<b>10,694</b>	<b>46,846</b>	<b>(43,658)</b>	<b>3,188</b>

The non-controlling interest at December 31, 2014, of \$2.8 million represents the 30% minority interest in Salvador held by Total and Solventus and the 13% minority interest of Shizukuishi and Mito held by HHT. There are no significant restrictions on the Group's ability to access or use the assets and settle the liabilities of Salvador, other than those imposed by the lending bank related to cash distributions.

The summarized income statement for Salvador, Shizukuishi and Mito, including the portion allocated to NCI 2014, is as follows:

	Loss for the period	Comprehensive loss for the period	Comprehensive loss allocated to NCI
Salvador	171	171	51
Shizukuishi	49	3,054	397
Mito	42	1,083	141
<b>Total</b>	<b>262</b>	<b>4,308</b>	<b>589</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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### 14. PROPERTY, PLANT AND EQUIPMENT

	Land \$'000	Solar power projects \$'000	Assets under construction \$'000	Equipment and furniture \$'000	Total \$'000
<b>Cost:</b>					
<b>At January 1, 2013</b>	<b>13,206</b>	<b>380,340</b>	-	<b>1,716</b>	<b>395,262</b>
Additions	-	2,422	7,705	87	10,214
Disposal	(23)	(187)	-	(19)	(229)
Reclassification	-	-	-	(379)	(379)
Exchange differences	572	16,469	-	74	17,115
<b>At December 31, 2013</b>	<b>13,755</b>	<b>399,044</b>	<b>7,705</b>	<b>1,479</b>	<b>421,983</b>
Additions	-	1,364	176,518	184	178,066
Disposals	-	-	-	(25)	(25)
Reclassification	-	-	2,504	-	2,504
Exchange differences	(1,869)	(49,743)	(1,029)	(201)	(52,842)
<b>At December 31, 2014</b>	<b>11,886</b>	<b>350,665</b>	<b>185,698</b>	<b>1,437</b>	<b>549,686</b>
<b>Accumulated depreciation:</b>					
<b>At January 1, 2013</b>	-	<b>42,059</b>	-	<b>995</b>	<b>43,054</b>
Charge for the year	-	19,576	-	153	19,729
Disposals	-	(149)	-	(19)	(168)
Reclassification	-	-	-	(65)	(65)
Exchange differences	-	1,746	-	43	1,789
<b>At December 31, 2013</b>	-	<b>63,232</b>	-	<b>1,107</b>	<b>64,339</b>
Charge for the year	-	15,635	-	332	15,967
Disposals	-	-	-	(25)	(25)
Exchange differences	-	(8,145)	-	(105)	(8,250)
<b>At December 31, 2014</b>	-	<b>70,722</b>	-	<b>1,309</b>	<b>72,031</b>
<b>Net book value:</b>					
At December 31, 2013	13,755	335,812	7,705	372	357,644
At December 31, 2014	11,886	279,943	185,698	128	477,655

During 2014, the Group capitalized as assets under construction \$179.0 million of incurred capital expenditures associated with the 70 MW Salvador Project in northern Chile and the 34 MW solar power projects in Japan. On November 4, 2014, construction of Project Salvador was completed and the solar facility was connected to the electricity grid. After this date, this Chilean solar plant produced and delivered electricity with various periods of interruption due to technical adjustments to the facility as the solar plant continued to be tested. On January 10, 2015, the solar plant achieved 100% capacity with no restrictions or incidents. [Note 2 \(s\)](#)

At December 31, 2014, \$8.6 million (2013: \$0.2 million) of borrowing costs were capitalized within property, plant and equipment. [Note 10](#) and [Note 22](#)

During 2014, the Group recognized an increase in the dismantling costs associated with its Italian solar parks based on a revision of the previous estimates, resulting in an increase in the asset of \$1.2 million and a corresponding increase in the dismantling provision. [Note 25](#)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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### 15. INTANGIBLE ASSETS

	Goodwill \$'000	Licenses and permits \$'000	Internally generated development costs and Other \$'000	Total \$'000
<b>Cost:</b>				
<b>At January 1, 2013</b>	<b>1,733</b>	<b>12,901</b>	<b>1,441</b>	<b>16,075</b>
Additions	-	14,209	3,520	17,729
Reclassifications	-	791	(412)	379
Impairment	-	-	(811)	(811)
Exchange differences	76	469	(125)	420
<b>At December 31, 2013</b>	<b>1,809</b>	<b>28,370</b>	<b>3,613</b>	<b>33,792</b>
Additions	-	845	4,909	5,754
Reclassification of development costs	-	2,987	(5,491)	(2,504)
Impairment	-	-	(107)	(107)
Exchange differences	(214)	(1,809)	(384)	(2,407)
<b>At December 31, 2014</b>	<b>1,595</b>	<b>30,393</b>	<b>2,540</b>	<b>34,528</b>
<b>Accumulated amortization:</b>				
<b>At January 1, 2013</b>	-	<b>1,456</b>	-	<b>1,456</b>
Charge for the year	-	634	-	634
Reclassifications	-	-	65	65
Exchange differences	-	60	131	191
<b>At December 31, 2013</b>	-	<b>2,150</b>	<b>196</b>	<b>2,346</b>
Charge for the year	-	1,364	227	1,591
Exchange differences	-	(301)	(50)	(351)
<b>At December 31, 2014</b>	-	<b>3,213</b>	<b>373</b>	<b>3,586</b>
<b>Net book value:</b>				
At December 31, 2013	1,809	26,220	3,417	31,446
At December 31, 2014	1,595	27,180	2,167	30,942

During 2014, general and administrative expenses of \$3.9 million (2013: \$3.4 million) representing internally-generated costs of \$1.3 million (2013: \$2.0 million) and third-party costs of \$2.6 million (2013: \$1.4 million) were capitalized during the period within intangible assets as they directly related to the Group's business development activities.

In addition, during 2014 the Group's Japanese subsidiaries acquired the related licenses and permits for the construction and operation of the 34 MW projects from its original sponsors, one of the Group's Japanese subsidiaries and HHT, of which \$2.9 million represented the Group's internally-generated costs associated with the development of this project.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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### 15. INTANGIBLE ASSETS (CONTINUED)

#### GOODWILL IMPAIRMENT TESTING

Goodwill recognized on the acquisition of subsidiaries that meet the definition of business combinations in accordance with IFRS 3 is allocated to the CGU expected to benefit from the synergies of the combination in accordance with the Group's accounting policy outlined in [Note 2\(d\)](#). The Group's impairment assessment is made using value-in-use calculations as outlined in [Note 3\(a\)](#).

Goodwill has been allocated to the CGUs relating to the Group's solar power as follows:

	2014 \$'000	2013 \$'000
<b>Renewable energy segment (Italy):</b>		
CGU 5 (Cassiopea)	751	851
CGU 6 (Centaurio)	450	511
CGU 1 (SVE)	29	33
CGU 2 (Helios ITA)	113	128
CGU 3 (Helios ITA-3)	176	200
CGU 4 (Etrion Lazio)	51	57
CGU 7 (Sagittario)	25	29
<b>Total goodwill</b>	<b>1,595</b>	<b>1,809</b>

At December 31, 2014, the Group assessed the carrying value of goodwill for impairment and determined that the recoverable amount of the CGUs to which goodwill had been allocated exceeded their carrying values, and, as a result, no impairment was provided for in 2014 (2013: \$nil).

### 16. FINANCIAL ASSETS

	Loans and receivables \$'000
<b>At December 31, 2014</b>	
<b>Current assets</b>	
Trade and other receivables <a href="#">Note 17</a>	6,554
Cash and cash equivalents <a href="#">Note 18</a>	95,349
<b>Total current financial assets</b>	<b>101,903</b>
<b>Total financial assets</b>	<b>101,903</b>
<b>At December 31, 2013</b>	
<b>Current assets</b>	
Trade and other receivables	6,966
Cash and cash equivalents	94,914
<b>Total current financial assets</b>	<b>101,880</b>
<b>Total financial assets</b>	<b>101,880</b>

### 17. TRADE AND OTHER RECEIVABLES

	2014 \$'000	2013 \$'000
<b>Current portion of trade and other receivables:</b>		
Financial assets		
- Trade receivables	5,624	5,854
- Other financial assets	930	1,112
Total financial assets <a href="#">Note 16</a>	6,554	6,966
Input VAT	29,399	6,250
Advances paid and prepaid expenses	2,576	3,158
Other current assets	8,402	5,568
Impairment loss provision	(13)	(15)
<b>Total current portion of trade and other receivables</b>	<b>46,918</b>	<b>21,927</b>
<b>Non-current portion of trade and other receivables:</b>		
Input VAT	77	122
Investment tax credit, advances paid and prepaid expenses	2,745	3,402
Impairment loss provision	-	(60)
<b>Total non-current portion of trade and other receivables</b>	<b>2,822</b>	<b>3,464</b>
<b>Total trade and other receivables</b>	<b>49,740</b>	<b>25,391</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2014

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### 17. TRADE AND OTHER RECEIVABLES (CONTINUED)

The carrying values of the financial assets approximate their fair values due to these assets having a relatively short maturity. The Group has no non-current financial assets included within trade and other receivables. The Group does not hold any collateral as security. Trade receivables relate to the sale of electricity from the Group's solar power projects to the operators of the electricity grid.

Other receivables includes prepaid tax and input VAT primarily relate to amounts expected to be collected for eligible expenditures from the relevant authorities in Chile and Japan associated with the Group's solar power projects. A portion of the VAT is classified as non-current as the amounts are expected to be collected more than twelve months after the balance sheet date. The non-current portion of the VAT has not been discounted as the amounts are interest-bearing at market rates.

During 2014, the Group received \$2.9 million as reimbursement of the remaining outstanding VAT receivable from the Italian tax authorities associated with the construction expenses of its solar power projects in Italy. As of December 31, 2013, prepaid expenses included \$3.3 million associated with transaction costs directly attributable to the private placement transaction completed in January 2014.

An aging analysis of the Group's trade receivables is as follows:

	2014 \$'000	2013 \$'000
Up to three months	1,591	1,657
<b>Total trade and other receivables past due but not impaired</b>	<b>1,591</b>	<b>1,657</b>
Trade and other receivables not past due	4,033	4,197
<b>Total trade and other receivables</b>	<b>5,624</b>	<b>5,854</b>

At December 31, 2014, trade and other receivables of \$1.6 million (2013:\$1.7 million) were past due but not impaired, of which \$1.6 million (2013:\$1.7 million) was received after the balance sheet date.

Movements in the Group's provision for impairment associated with trade and other receivables were as follows:

	2014 \$'000	2013 \$'000
<b>Impairment loss provision at the beginning of the year</b>	<b>75</b>	<b>427</b>
Utilization during the year	(60)	-
Disposal of subsidiary	-	(355)
Exchange differences	(2)	3
<b>Total impairment loss provision at the end of the year</b>	<b>13</b>	<b>75</b>
- Current portion	13	15
- Non-current portion	-	60

The currencies of the Group's financial assets included within trade and other receivables are as follows:

	2014 \$'000	2013 \$'000
Euros	12,008	22,195
US dollars	660	2,935
Canadian dollars	11	43
Japanese Yen	9,682	64
Swiss francs	273	154
Chilean pesos	27,106	-
<b>Total trade and other receivables</b>	<b>49,740</b>	<b>25,391</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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### 18. CASH AND CASH EQUIVALENTS (INCLUDING RESTRICTED CASH)

The Group's cash and cash equivalents (including restricted cash) are held in banks with high and medium credit ratings assigned by international credit agencies in Canada, Luxembourg, Switzerland, Italy, United States of America, Japan and Chile. The fair value of cash and cash equivalents approximates its carrying value due to short maturities.

	2014 \$'000	2013 \$'000
Cash at banks	95,349	94,914
<b>Total</b>	<b>95,349</b>	<b>94,914</b>

Included within cash and cash equivalents is restricted cash relating to the Group's solar power projects as follows:

	2014 \$'000	2013 \$'000
Unrestricted cash and cash equivalents	33,886	8,511
Cash and cash equivalents restricted to solar power projects	61,463	86,403
<b>Total</b>	<b>95,349</b>	<b>94,914</b>

Restricted cash relates to cash and cash equivalents held at the project level that are restricted by the lending banks for future repayment of interest and principal and working capital requirements related to the specific project. Restricted cash and cash equivalents can be distributed from the Group's projects, subject to approval from the lending banks, either through repayment of shareholder loans, payment of interest on shareholder loans or dividend distributions. During 2014, the unrestricted cash and cash equivalents balance increased significantly primarily due to the successful completion of the private placement and the corporate bond issuance.

### 19. SHARE CAPITAL

The Company has authorized capital consisting of an unlimited number of common shares, of which 334,082,657 are issued and outstanding at December 31, 2014 (2013: 209,219,086). In addition, the Company is authorized to issue an unlimited number of preferred shares, issuable in series, none of which have been issued. The common shares of the Company have no par value, are all of the same class, carry voting rights, and entitle shareholders to receive dividends as and when declared by the Board of Directors. No dividends were declared in the years ended December 31, 2014 and 2013.

	Number of Shares outstanding	Share capital \$'000
<b>At January 1, 2013</b>	<b>205,746,419</b>	<b>33,270</b>
Share issuance <a href="#">Note 29</a>	2,500,000	753
Stock options exercised <a href="#">Note 20</a>	972,667	856
<b>At December 31, 2013</b>	<b>209,219,086</b>	<b>34,879</b>
Share issuance	124,633,571	76,280
Stock options exercised <a href="#">Note 20</a>	230,000	141
<b>At December 31, 2014</b>	<b>334,082,657</b>	<b>111,300</b>

In January 2014, the Company completed a private placement issuing a total of 124,633,571 new common shares at a price of SEK 4.15 (approximately CAD\$0.70) per share raising gross proceeds of SEK 517,229,320 (approximately \$76.3 million, net of \$3.7 million of transaction costs). Entities associated with the Lundin family subscribed for 28,201,571 common shares or approximately 23% of the private placement. As a result, the Lundin family continues to be Etrion's largest shareholder owning approximately 24.3% of the Company. [Note 29](#)

During 2014, the Company issued 230,000 new common shares with an average fair value of CAD\$0.67 as a result of stock options being exercised during the year. During 2013, the Company issued 972,667 shares with a fair value of CAD\$0.91 as a result of stock options being exercised during the year. [Note 20](#)

In October 2013, the Company issued 2,500,000 shares at a deemed price of CAD\$0.31 to Lorito Guernsey in consideration for the provision of a \$42 million letter of credit issued on behalf of the Company. [Note 29](#)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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### 20. SHARE-BASED PAYMENTS

The Company maintains an equity-settled stock option awards scheme for employees, consultants, directors and officers. All outstanding stock options have a contractual term ranging from five to ten years and generally vest over a period of three years with the exercise price set equal to the market price at the date of grant.

In addition, the Company's shareholders approved at the annual meeting held on June 12, 2014, the adoption of a Restricted Share Unit Plan (RSU) awards plan for employees, consultants, directors and officers. RSUs have a contractual term of four years and have time-based and performance-based vesting conditions that are market and non-market based.

During 2014, the Group recognized share-based payment expenses of \$0.5 million (2013: \$0.5 million) related to its stock option and RSU award schemes. **Note 8.** Changes in the Company's outstanding stock options and RSUs are as follows:

	Number of share options	Weighted average exercise price CAD\$
<b>At December 31, 2012</b>	<b>7,450,000</b>	<b>0.53</b>
Granted	160,000	0.24
Exercised	(972,667)	0.53
Canceled	(447,333)	0.99
<b>At December 31, 2013</b>	<b>6,190,000</b>	<b>0.49</b>
Exercised	(230,000)	0.40
Canceled	(580,000)	0.55
<b>At December 31, 2014</b>	<b>5,380,000</b>	<b>0.48</b>
<b>Stock options exercisable:</b>		
At December 31, 2013	3,646,001	0.57
At December 31, 2014	4,081,333	0.52

The Company recognizes an expense within general and administrative expenses when stock options are granted to employees, consultants, directors and officers using the fair value method at the date of grant. Share-based compensation is calculated using the Black-Scholes option pricing model for stock options and the grant date share fair value for RSUs with service and non-market performance conditions. For RSUs with market-based performance conditions share-based compensation is calculated using an adjusted grant date share fair value calculated with a valuation model that incorporates all the variables included in the market vesting conditions.

	Number of RSUs
<b>At December 31, 2013</b>	-
Granted	6,660,440
<b>At December 31, 2014</b>	<b>6,660,440</b>

Management assesses the non-market vesting conditions and adjusts the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the expense amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Specifically, management assess the probability that the Company will reach the performance condition and any adjustments are recognized in the income statement of the period when that probability changes. As of December 31, 2014, Etrion's management expects that the Company will reach the performance conditions targets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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### 20. SHARE-BASED PAYMENTS (CONTINUED)

A summary of the Company's stock options and RSUs issued and outstanding at December 31, 2014, is as follows:

Exercise price (CAD\$)	Number of share options outstanding	Number of share options exercisable	Expiry date	Weighted average contractual life (years)
0.24	160,000	53,334	April 24, 2018	3.31
0.34	1,524,000	1,016,000	September 24, 2017	2.73
0.34	188,000	125,333	October 21, 2017	2.81
0.36	1,300,000	866,667	July 5, 2017	2.51
0.52	564,000	375,999	March 19, 2017	2.21
0.61	580,000	580,000	January 6, 2015	0.02
0.66	789,000	789,000	December 7, 2015	0.93
0.86	125,000	125,000	October 18, 2015	0.80
1.59	150,000	150,000	April 28, 2018	3.32

	Number of RSUs outstanding	Number of RSUs exercisable	Expiry date	Weighted average contractual life (years)
Non-performance based awards	465,000	-	December 31, 2018	4.00
Non-performance based awards	518,667	-	December 31, 2017	3.51
Performance-based awards (non-market conditions)	2,701,545	-	December 31, 2018	4.00
Performance-based awards (market conditions)	2,975,228	-	December 31, 2017	3.51

Service RSU awards granted in July and December 2014 were valued using the share price at the date of grant of CAD\$0.57 and CAD\$0.35. Performance RSU awards with non-market conditions granted in July and December 2014 were valued using the share price at the date of grant of CAD\$0.57 and CAD\$0.35. Performance RSU awards with market conditions granted in December 2014 were valued using an adjusted share price calculated with a hybrid valuation model based on the Monte Carlo simulation. The assumptions used in the calculation of the adjusted share price were as follows:

	2014
Share price at grant date	CAD\$0.35
Exercise price	CAD\$0.00
Risk-free interest rate	1.06%
Expected volatility	63.90%
Dividend yield rate	0.00%
Contractual life of RSUs	4 years
Fair value at grant date	CAD\$0.26

During 2014, no awards were granted under the stock option plan. The weighted average fair value of options granted in 2013 and the assumptions used in their determination are as follows:

	2013
Weighted average share price at grant date	CAD\$0.24
Exercise price	CAD\$0.24
Risk-free interest rate	1.19%
Expected volatility	90.05%
Dividend yield rate	0.00%
Contractual life of stock options	5 years
Fair value at grant date	CAD\$0.17

The expected volatility is based on a statistical analysis of the Company's share price over the period of time equivalent to the contractual term of the options and for RSUs the fair value calculation also considers the volatility of the peer group which averaged 40%, based on a statistical analysis of the share price of companies Etrion compares with to evaluate its market performance.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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### 21. OTHER RESERVES

	Translation reserve \$'000	Hedging reserve \$'000	Transactions with non- controlling interests \$'000	Total \$'000
<b>At January 1, 2013</b>	<b>(200)</b>	<b>(22,683)</b>	<b>43</b>	<b>(22,840)</b>
Currency translation difference:				
- Loss on translation adjustment	(658)	-	-	(658)
Written call options	-	-	151	151
Cash flow hedges:				
- Gain on fair value movements	-	15,700	-	15,700
- Tax on gain on fair value movements	-	(3,976)	-	(3,976)
- Ineffective portion of fair value movements to profit or loss	-	(906)	-	(906)
- Tax on ineffective portion of fair value movements to profit or loss	-	315	-	315
- Re-designated portion of derivative to profit or loss	-	347	-	347
- Tax on re-designated portion of derivative to profit or loss	-	(114)	-	(114)
<b>At December 31, 2013</b>	<b>(858)</b>	<b>(11,317)</b>	<b>194</b>	<b>(11,981)</b>
Currency translation difference:				
- Loss on translation adjustment	(4,346)	-	-	(4,346)
- Gain on net investment in foreign subsidiary	4,805	-	-	4,805
Written call options	-	-	700	700
Cash flow hedges:				
- Loss on fair value movements	-	(25,323)	-	(25,323)
- Tax on loss on fair value movements	-	5,351	-	5,351
- Ineffective portion of fair value movements to profit or loss	-	995	-	995
- Tax on ineffective portion of fair value movements to profit or loss	-	(273)	-	(273)
- Re-designated portion of derivative to profit or loss	-	347	-	347
- Tax on re-designated portion of derivative to profit or loss	-	(112)	-	(112)
<b>At December 31, 2014</b>	<b>(399)</b>	<b>(30,332)</b>	<b>894</b>	<b>(29,837)</b>

The translation reserve is used to record foreign currency exchange differences arising from the translation of the financial statements of foreign operations as described in [Note 2\(f\)](#).

The hedging reserve includes the effective portion of changes in the fair value (net of tax) of the Group's derivative financial instruments that qualify for hedge accounting. The ineffective portion of these derivative financial instruments is included within finance income/costs [Note 10](#). At December 31, 2014 and 2013, all of the Group's interest rate swap contracts qualified for hedge accounting.

#### Written call options

According to the terms of a shareholder agreement entered into by one of the Group's Chilean subsidiaries, Etrion is deemed to be the underwriter of two call options in relation to its initial 70% shareholding in Salvador. The call options give the right but not the obligation to Total Energie and Solventus to acquire from Etrion all of its shares in Salvador in two separate transactions for a total consideration of \$2 during the life of the solar project. As per the contract, the first call option will become exercisable once Etrion has recovered its initial investment of \$42 million, depending on spot price assumptions, and the second call option will become exercisable at the end of the life of the contract on February 28, 2035. The fair value at grant of the first call option was \$1.8 million and will be expensed during the vesting period through the statement of comprehensive income using the graded method. Upon exercise, Etrion will release the value of the derivative financial instrument against the carrying value of its equity investment in Salvador. The fair value of the options has been calculated using the Black-Scholes model with a deemed stock price of \$20.17, a strike price per option of \$nil, volatility of 106.51% and a risk-free rate of 1.30%. The fair value of the second option has been calculated as nil as the dividend yield is higher than 100%. The fair value of the written call option is not updated because it has been recognized as an equity-settled instrument in accordance with IFRS 2 Share-based payments.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2014

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### 22. BORROWINGS

	Corporate borrowings \$'000	Non-recourse project loans \$'000	Total \$'000
<b>At January 1, 2013</b>	<b>80,067</b>	<b>319,704</b>	<b>399,771</b>
Proceeds from loans	-	48,185	48,185
Repayment of loans and interest	(7,090)	(36,878)	(43,968)
Accrued interest	7,172	9,468	16,640
Amortization of transaction costs	195	692	887
Exchange differences	3,606	13,463	17,069
<b>At December 31, 2013</b>	<b>83,950</b>	<b>354,634</b>	<b>438,584</b>
- Current portion	1,511	19,641	21,152
- Non-current portion	82,439	334,993	417,432
<b>At January 1, 2014</b>	<b>83,950</b>	<b>354,634</b>	<b>438,584</b>
Proceeds from loans	24,242	126,276	150,518
Repayment of loans and interest	(8,258)	(32,617)	(40,875)
Settlement of debt	204	-	204
Accrued interest	8,410	15,813	24,223
Amortization of transaction costs	344	1,119	1,463
Exchange difference	(12,183)	(36,683)	(48,866)
<b>At December 31, 2014</b>	<b>96,709</b>	<b>428,542</b>	<b>525,251</b>
- Current portion	1,467	68,815	70,282
- Non-current portion	95,242	359,727	454,969

The Group's borrowings are denominated in Euros, Chilean pesos, Japanese yen and US dollars, and the minimum principal repayment obligations are as follows:

	2014 \$'000	2013 \$'000
Less than 1 year	68,973	19,787
Between 1 and 5 years	159,404	192,889
After 5 years	296,874	225,908
<b>Total borrowings</b>	<b>525,251</b>	<b>438,584</b>

#### (a) CORPORATE BORROWINGS

On April 23, 2014, Etrion issued €80 million principal amount of new secured bonds in the Norwegian bond market. The new bonds have an annual interest rate of 8.0% and mature in April 2019. A portion of the net proceeds from this transaction was used to refinance the Company's previous €60 million of corporate bonds that bore annual interest of 9.0% and were due to mature in April 2015. The balance of the proceeds has been used for general purposes.

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 (i.e., a fixed premium). Specifically, the Company can redeem the bond within the first two years at 4% above par value plus the net present value of the interest that would have accrued up to April 22, 2016 (using a discount rate of 50 basis points over the German government bond rate comparable to the remaining duration of the bonds until April 22, 2016). The Company can call the bonds after the second year at 4% above par value, after the third year at 2.5% above par value and after the fourth year at 1% above par value. At December 31, 2014, no separate amount was recognized in relation to this call option.

The carrying value of the corporate bonds as at December 31, 2014, including accrued interest net of transaction costs, was \$96.7 million. The corporate bond agreement requires the Company to maintain a minimum unrestricted cash balance of €3 million. At December 31, 2014, the fair value of the corporate bond amounted to \$90.9 million (2013: \$83.4 million) based on cash flows discounted at 10.03%. The discount rate equals Euribor plus the appropriate credit rating. [Note 29](#)

At December 31, 2014 and 2013, the Group was not in breach of any of the imposed operational and financial covenants associated with its corporate borrowings.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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### 22. BORROWINGS (CONTINUED)

#### (b) NON-RECOURSE PROJECT LOANS

##### *Italian projects*

The non-recourse project loans obtained by the Group's Italian subsidiaries to finance the construction of the Group's Italian solar power projects mature at various dates between 2024 and 2028 and bear annual interest rates of Euribor plus a margin ranging from 1.35% to 3.1%. At December 31, 2014, the fair value of the non-recourse project loans approximated their carrying values as the loans bear floating interest rates. At December 31, 2014, the Group had no undrawn amounts associated with these facilities. In order to secure the Group's non-recourse project loans, the Group pledged as collateral the fixed assets associated with the solar power projects financed by these facilities. The carrying value of the Group's fixed assets pledged as collateral at December 31, 2014, was \$292 million (2013: \$348 million).

Repayment of these facilities is secured principally by the proceeds from the sale of electricity under contracts entered into by the Group with the GSE and proceeds from the collection of input VAT accumulated for construction costs. Counterparties to the non-recourse project loans do not have unconditional or unilateral discretionary rights to accelerate repayment to earlier dates.

All the Italian non-recourse projects loans are hedged through interest rate swap contracts, all of which qualified for hedge accounting at December 31, 2014 and 2013.

As at December 31, 2014, one of the Group's Italian subsidiaries, Helios ITA, Spa (Helios ITA) did not reach the minimum historical debt service coverage ratio. As a result, according to the terms of the credit facility agreement, the Company was deemed to be in breach of covenants, and the Group reclassified the long-term portion of this project loan to short-term liability. This breach in covenants was due to the deterioration of free cash flow as a consequence of multiple factors beyond the control of Helios ITA, such as the reduction in the minimum guaranteed spot electricity prices applicable to Helios ITA's solar sites below 1 MW, the expanded scope of the Robin Hood tax and a new tax depreciation method recently introduced in Italy. However, on February 24, 2015, Helios ITA received a waiver from its lender banks. **Note 31.** At December 31, 2014 and 2013, the Group was not in breach of any of the operational or financial covenants associated with its Italian project loans except Helios ITA in 2014 as noted above.

##### *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 loan was drawn in three tranches, each of which is subject to a different fixed interest rate. The first tranche of \$50 million drawn in December 2013 bears a fixed annual rate of 7.51%. The second tranche of \$64 million drawn in May 2014 bears a fixed annual rate of 7.1%. The third tranche of \$26.5 million drawn in December 2014 bears a fixed annual rate of 6.82%. At December 31, 2014, there were no undrawn amounts under this credit facility. The repayment of this credit facility is secured principally by the proceeds from the sale of electricity in the spot market once the solar project is operational. 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. The fair values are based on cash flows discounted using an average rate of 7.1% (2013: 7.5%) and are within level 2 of the fair value hierarchy.

Salvador's financing agreement contains customary representations, warranties, covenants and undertakings restricting the borrower in respect of disposals, acquisitions, payments and transfers and incurring indebtedness and granting guarantees and security. The Company's subsidiary has provided certain of its assets as collateral to secure its obligations under the financing agreement. The carrying value of Salvador's fixed assets pledged as collateral at December 31, 2014, was \$172.8 million (2013: \$nil).

In addition, the Group obtained a local currency VAT credit facility of approximately \$35 million in 2013 from Rabobank, a Chilean bank owned by Rabobank Group, a Dutch multinational banking and financial services company, to finance the VAT associated with the construction costs of Project Salvador. The VAT credit facility bears variable interest rates that are set every quarter plus a margin. The average applicable interest rate during 2014 was approximately 6%. During 2014, the Group drew an equivalent total amount of \$24.4 million under this VAT credit facility (net of transaction costs). At December 31, 2014, there were no undrawn amounts under this credit facility.

At December 31, 2014 and 2013, the Group was not in breach of any of the imposed operational and financial covenants associated with its Chilean project loans.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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*Expressed in US\$'000 unless otherwise stated*

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### 22. BORROWINGS (CONTINUED)

#### *Japanese projects*

During 2014, the Group's Japanese subsidiaries that hold the 34 MW Shizukuishi and Mito projects entered into a senior secured financing agreement in Japanese yen with Sumitomo Mitsui Trust Bank, Limited (SMTB) for a total amount of ¥9,854 million (\$82.0 million) in order to finance 80% of the construction costs of the projects. These credit facilities have an 18-year tenor and bear floating interest rates during the construction period of the solar plants and a 90% hedged interest rate plus a margin during operation. The repayment of this facility is secured principally by the proceeds from the sale of electricity under a purchase power agreement with the respective utility. At December 31, 2014, the fair value of the non-recourse project loans approximated their carrying values as the loans bear floating interest rates.

In addition, during 2014, the Group's Japanese subsidiaries entered into a VAT credit facility agreement in Japanese yen with SMTB for a total amount of ¥846 million (\$7.0 million) in order to finance the related VAT capital disbursements of the Shizukuishi and Mito projects. These VAT credit facilities have a term of three years and bear a variable interest rate plus a margin.

During 2014, the Group's Japanese subsidiaries completed the first drawdowns under the senior financing agreement in the amount of ¥1,210 million (\$10.0 million), before transaction costs. As of December 31, 2014, the undrawn gross amount was ¥8,644 million (\$72.0 million). In addition, during 2014 the Group's Japanese subsidiaries also completed the first drawdowns under the VAT credit facility in the amount of ¥240 million (\$2.0 million). As of December 31, 2014, the undrawn gross amount was ¥606 million (\$5.0 million).

Repayment of these facilities is secured principally by the proceeds from the sale of electricity under contracts entered into by the Group with the local grid operator and proceeds from the collection of input VAT accumulated for construction costs. Counterparties to the non-recourse project loans do not have unconditional or unilateral discretionary rights to accelerate repayment to earlier dates.

All the Japanese non-recourse projects loans are hedged through interest rate swap contracts, all of which qualified for hedge accounting at December 31, 2014.

At December 31, 2014, the Group was not in breach of any of the imposed operational and financial covenants associated with its Japanese project loans.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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### 23. FINANCIAL LIABILITIES

	Other financial liabilities \$'000	Derivative financial instruments \$'000	Total \$'000
<b>At December 31, 2014</b>			
<b>Non-current financial liabilities:</b>			
Borrowings	454,969	-	454,969
Derivative financial instruments	-	47,192	47,192
<b>Total non-current financial liabilities</b>	<b>454,969</b>	<b>47,192</b>	<b>502,161</b>
<b>Current financial liabilities:</b>			
Trade and other payables	1,089	-	1,089
Borrowings	70,282	-	70,282
Derivative financial instruments	-	8,203	8,203
<b>Total current financial liabilities</b>	<b>71,371</b>	<b>8,203</b>	<b>79,574</b>
<b>Total financial liabilities</b>	<b>526,340</b>	<b>55,395</b>	<b>581,735</b>
<b>At December 31, 2013</b>			
<b>Non-current financial liabilities:</b>			
Borrowings	417,432	-	417,432
Derivative financial instruments	-	27,019	27,019
<b>Total non-current financial liabilities</b>	<b>417,432</b>	<b>27,019</b>	<b>444,451</b>
<b>Current financial liabilities:</b>			
Trade and other payables	1,059	-	1,059
Borrowings	21,152	-	21,152
Derivative financial instruments	-	9,110	9,110
<b>Total current financial liabilities</b>	<b>22,211</b>	<b>9,110</b>	<b>31,321</b>
<b>Total financial liabilities</b>	<b>439,643</b>	<b>36,129</b>	<b>475,772</b>

### 24. DERIVATIVE FINANCIAL INSTRUMENTS

	2014 \$'000	2013 \$'000
<b>Derivative financial liabilities:</b>		
Interest rate swap contracts (cash flow hedges)		
- Current portion	8,203	9,110
- Non-current portion	47,192	27,019
<b>Total derivative financial liabilities</b>	<b>55,395</b>	<b>36,129</b>

#### Interest rate swap contracts

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. 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. At December 31, 2014, the Group had nine derivative financial instruments that qualified for hedge accounting (2013: seven).

At December 31, 2014, the notional amount of the Group's interest rate swap contracts was \$328.3 million (2013: \$304.5 million), which was denominated in Euros and Japanese yen. The fair market value of the interest rate swap contracts at December 31, 2014, increased to a liability position of \$55.4 million (2013: \$36.1 million) due to a lower forecasted Euribor curve in comparison with previous projections and the addition of the new Japanese interest rate swap contracts associated with the project loans obtained during 2014. [Note 22](#)

At December 31, 2014 and 2013, 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/costs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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### 25. PROVISIONS AND OTHER LIABILITIES

The movement of provisions over the year is as follows:

	Decommissioning and site restoration \$'000	Shared revenue provision \$'000	Post- employment benefits \$'000	Total \$'000
<b>At January 1, 2014</b>	<b>3,394</b>	<b>1,166</b>	<b>801</b>	<b>5,361</b>
Additions	-	-	237	237
Change in estimate	1,211	(265)	317	1,263
Unwinding of discount	147	-	-	147
Utilization	-	-	(261)	(261)
Exchange differences	(523)	(117)	(102)	(742)
<b>At December 31, 2014</b>	<b>4,229</b>	<b>784</b>	<b>992</b>	<b>6,005</b>
Non-current	4,229	-	992	5,221
Current	-	784	-	784

#### (a) DECOMMISSIONING AND SITE RESTORATION

In accordance with the environmental legislation in Italy, the Group has a legal obligation to complete the landfill site restoration and decommissioning of its solar power projects after their expected closure. The provision for decommissioning and site restoration is determined using the nominal prices effective at the reporting dates by applying the forecasted rate of inflation for the expected life of the solar power projects. Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning and reclamation alternatives, discounts applied for economies of scale and the rate of inflation.

Principal assumptions made in order to calculate the Group's provision for decommissioning and site restoration are as follows:

	2014	2013
Discount rate	2.47%	4.48%
Inflation rate	2%	2%
Average expected remaining life of solar power plant	21 years	18 years

The discount rate of 2.47% represents the government bond yield rate in Italy for a period equivalent to the expected life of the solar power projects. This discount rate decreased due to a lower risk-free rate (pre-tax) on Italian bonds for 21 years. The inflation rate of 2% represents the inflationary environment in Italy where the liability will be settled and is consistent with the rate used by the Company's management to value the Group's solar power projects.

#### (b) SHARED REVENUE PROVISION

The operating and maintenance agreements signed between SunPower and the Group's Italian subsidiaries, Cassiopea and Centauro, include a shared revenue clause effective two years after provisional acceptance of the solar power plants. Under this clause, Etrion shares the electricity revenue when certain production yields are exceeded. During 2014, the Italian subsidiaries reached an agreement in respect of the application of the shared revenue clause and recognized a reduction of this provision by US\$0.3 million. As of December 31, 2014, the provision includes the applicable shared revenue from the period June 2012 to December 2013.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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### 25. PROVISIONS AND OTHER LIABILITIES (CONTINUED)

The Group's other liabilities as at December 31, 2014 and 2013 are as follows:

	2014 \$'000	2013 \$'000
Right of use	962	1,140
Equipment liability	1,615	1,835
Investment tax credit	1,940	2,627
Imbalance costs	134	-
Deferred income	365	-
Contributions from non-controlling interests	18,467	5,480
<b>Total other liabilities</b>	<b>23,483</b>	<b>11,082</b>
Non-current	21,503	9,247
Current	1,980	1,835

#### (c) RIGHT OF USE

One of the Group's solar power projects (Cassiopea) is part of a larger solar park built by SunPower Corporation ("SunPower"). Cassiopea was the first solar power project built in the solar park and included a substation with extra capacity. In accordance with the sale and purchase agreement, as future plants are connected within the solar park, a payment is to be made to Cassiopea for the right to use part of the substation. During 2010, two solar power plants were connected to the grid and accordingly Cassiopea received \$1.2 million for use of the substation. During 2014, the Group recognized other income of \$65,000 (2013: \$48,000) associated with the release of the deferred income over the life of the facility. **Note 9**

#### (d) INVESTMENT TAX CREDIT

In February 2010, the Group received from the Italian tax authorities a Visco SUD investment tax credit of €2.4 million associated with the construction of one of its solar power projects (SVE). The investment tax credit, representing 20% of the Group's investment into the solar power project, can be utilized to offset future taxable income generated by the solar power project, thereby reducing the Group's income tax expense for the given year. As a result, in 2011, once the SVE solar power project was connected to the electricity grid and started producing solar electricity, the Group recognized an investment tax credit of \$3.4 million within trade and other receivables and a corresponding amount within provisions as deferred income. During 2014, the Group utilized a portion of this investment tax credit, reducing the Group's current income tax liabilities by \$0.2 million (2013: \$0.2 million).

#### (e) EQUIPMENT LIABILITY

In June 2012, the Group executed a bond guarantee from an Italian contractor (Solon A.B.) in accordance with the EPC contract. As a result, the Group recognized deferred income of \$1.7 million representing the amount received that will be released upon completion of the associated expenditure, expected in the first half of 2015.

#### (f) CONTRIBUTIONS FROM NON-CONTROLLING INTEREST

In accordance with the shareholder agreements between Etrion and its partners in Chile and Japan, total project costs for the solar power plants are financed through a combination of non-recourse project debt and equity. The equity is funded by Etrion and its partners based on their respective ownership interests. During 2014, Total Energie, Solventus and HHT contributed a total of \$12.9 million as shareholder loans, in proportion to their ownership interests (2013: \$5.4 million). These shareholder loans have a fixed annual interest rate of 8% and 10% and mature in four and over 10 years in Chile and Japan, respectively. Contributions from non-controlling interest in the form of shareholder loans qualify as financial liabilities and have been accounted for using the amortised cost method based on the effective interest rate method. The fair value of the shareholder loans equal their carrying amount, as the impact of discounting is not significant given their fixed-rate terms. The fair values are based on cash flows discounted using an average rate of 8% and 10% and are within level 2 of the fair value hierarchy.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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### 26. RETIREMENT OBLIGATIONS

The Group operates a defined benefit pension plan in Switzerland that is managed through a private fund. At December 31, 2014, the Group recognized \$0.3 million within other comprehensive income associated with actuarial losses (2013: actuarial gain of \$37,000).

The amount recognized in the balance sheet associated with the Group's Swiss pension plan is as follows:

	2014 \$'000	2013 \$'000
Present value of funded obligations	2,506	2,089
Fair value of plan assets	(1,489)	(1,299)
Adjustment for amounts not paid	(25)	11
<b>Net liability position</b>	<b>992</b>	<b>801</b>

The movement in the defined benefit obligation over the year is as follows:

	2014 \$'000	2013 \$'000
Defined benefit obligation at the beginning of the year	1,881	1,905
Current service cost	221	182
Employee contributions	136	121
Interest cost	41	32
Contributions paid by plan participants	103	16
Benefits paid	(166)	(149)
Remeasurement (gain)	340	(25)
Exchange differences	(50)	7
<b>Defined benefit obligation at the end of the year</b>	<b>2,506</b>	<b>2,089</b>

The weighted average duration of the defined benefit obligation is 11 years. There is no maturity profile since the average remaining life before active employees reach final age according to the plan is 10.7 years.

The movement in the fair value of the plan assets over the year is as follows:

	2014 \$'000	2013 \$'000
Fair value of plan assets at the beginning of the year	1,170	1,093
Interest income on plan assets	25	18
Return on plan assets (excluding interest)	23	(10)
Employer contributions	223	202
Employee contributions	136	121
Contributions paid by plan participants	103	16
Benefits paid	(166)	(149)
Foreign exchange	(25)	8
<b>Fair value of plan assets at the end of the year</b>	<b>1,489</b>	<b>1,299</b>

The plan assets comprise the following:

	2014		2013	
	%	\$'000	%	\$'000
Cash and cash equivalents (including term deposit)	7.2%	107	6.8%	88
Fixed interest rate instruments	45.2%	673	44.7%	581
Equity instruments	35.4%	527	33.2%	432
Real estate	11.9%	177	13.5%	175
Other investments	0.3%	4	1.8%	23
<b>Total fair value of plan assets</b>		<b>1,489</b>		<b>1,299</b>

Investments are well diversified such that failure of any single investment would not have a material impact on the overall level of assets. All investment instruments are quoted in active markets except other investments. No asset-liability strategy was performed in the years ended December 31, 2014 and 2013.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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### 26. RETIREMENT OBLIGATIONS (CONTINUED)

The amount recognized in the income statement associated with the Group's pension plan is as follows:

	2014 \$'000	2013 \$'000
Current service cost	221	181
Interest expense on defined benefit obligation	41	32
Interest income on plan assets	(25)	(18)
<b>Total expense recognized during the year</b>	<b>236</b>	<b>195</b>

The expense associated with the Group's pension plan of \$0.2 million (2013: \$0.2 million) for the year ended December 31, 2014, was included within general and administrative expenses. [Note 8](#)

The principal actuarial assumptions used to estimate the Group's pension obligation are as follows:

	2014 \$'000	2013 \$'000
Discount rate	1.5%	2.0%
Inflation rate	1.0%	1.0%
Future salary increases	1.0%	1.0%
Future pension increases	0.0%	0.0%
Retirement age	Men 65 Women 64	Men 65 Women 64

Assumptions regarding future mortality are set based on actuarial advice in accordance with the LPP 2010 generational published statistics and experience in Switzerland.

The discount rate is determined by reference to the yield on high-quality corporate bonds (i.e., Swiss bond market over 15 years). The rate of inflation is based on the expected value of future annual inflation adjustments in Switzerland. The rate for future salary increases is based on the average increase in the salaries paid by the Group, and the rate of pension increases is based on the annual increase in risk, retirement and survivors' benefits.

Contributions to the Group's pension plan during 2015 are expected to total \$0.3 million.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.50%	Decrease by 8.3%	Increase by 9.6%
Salary growth rate	0.50%	Decrease by 0.8%	Decrease by 2.7%
Life expectancy	1 year	Decrease by 0.3%	Decrease by 3.2%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method has been applied as when calculating the pension liability recognized within the consolidated balance sheet.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2014

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### 27. TRADE AND OTHER PAYABLES

	2014 \$'000	2013 \$'000
<b>Financial liabilities:</b>		
Trade payables	1,089	1,059
<b>Total financial liabilities</b> <a href="#">Note 23</a>	<b>1,089</b>	<b>1,059</b>
Accrued expenses	21,565	15,280
Credit facility with related party (Lundin family) <a href="#">Note 29</a>	-	18,215
Other trade and other payables	1,456	806
<b>Total trade and other payables</b>	<b>24,110</b>	<b>35,360</b>

Accrued expenses at December 31, 2014, of \$21.5 million (2013: \$15.3 million) include \$16.2 million (2013: \$8.2 million) for the construction of the Salvador solar power project.

The carrying value of the Group's financial liabilities within trade and other payables approximates their fair value due to the relatively short maturity of these liabilities. The currencies of the Group's trade and other payables are as follows:

	2014 \$'000	2013 \$'000
US dollars	17,433	10,397
Euros	3,587	23,175
Swiss francs	1,300	1,687
Japanese yen	1,729	37
Canadian dollars	61	58
Swedish krona	-	6
<b>Total trade and other payables</b>	<b>24,110</b>	<b>35,360</b>

### 28. OPERATING LEASES

The Group has operating leases for land associated with seven of its solar power projects (Etrion Lazio, SVE, Sagittario, Salvador, Mito and Shizukuishi) and for its offices in Geneva, Rome, Santiago and Tokyo. The minimum lease payments associated with the Group's operating leases are as follows:

	2014 \$'000	2013 \$'000
Next year	1,638	593
Years 2 through 5	5,889	2,122
Beyond 5 years	21,987	4,830
<b>Total minimum lease payments</b>	<b>29,514</b>	<b>7,545</b>

During 2014, the Group recognized \$0.6 million (2013: \$0.6 million) of operating lease expenses, of which \$0.2 million (2013: \$0.2 million) related to land leases included within operating expenses and \$0.4 million (2013: \$0.4 million) related to office leases included within general and administrative expenses. [Note 7](#) and [Note 8](#)

The Group had no finance leases at December 31, 2014 and 2013.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2014

Expressed in US\$'000 unless otherwise stated

### 29. RELATED PARTIES

For the purposes of preparing the Company's consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, under ordinary control, or if one party can exercise significant influence over the other party in making financial and operational decisions. The Company's major shareholder is the Lundin family, which collectively owns through various trusts approximately 24.3% of the Company's common shares (2013: 25.4%).

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed below. Details of transactions between the Group and other related parties are disclosed below.

#### (a) RELATED PARTY TRANSACTIONS

The Group has entered into the following transactions with related parties:

	2014 \$'000	2013 \$'000
<b>General and administrative expenses:</b>		
Lundin Services BV	157	31
<b>Finance costs:</b>		
Lundin Services BV:		
- Interest expense associated with corporate bond	270	908
- Transaction costs associated with corporate bond	10	25
Lundin family:		
- Interest expense associated with corporate bond	1,825	1,793
- Transaction costs associated with corporate bond	72	49
- Interest expense capitalized associated with Lundin bridge loan	176	215
- Equity-based financing fee	-	731
<b>Total transactions with related parties</b>	<b>2,510</b>	<b>3,752</b>

Amounts outstanding to related parties at December 31, 2014 and 2013 are as follows:

	2014 \$'000	2013 \$'000
<b>Current liabilities:</b>		
Lundin family bridge loan	-	18,215
Lundin Services BV:		
- General and administrative expenses	7	5
- Participation in corporate bond	-	191
Lundin family (participation in corporate bond)	182	378
<b>Total current liabilities</b>	<b>189</b>	<b>18,789</b>
<b>Non-current liabilities:</b>		
Lundin Services BV (participation in corporate bond)	-	10,444
Lundin family (participation in corporate bond)	11,786	20,613
<b>Total non-current liabilities</b>	<b>11,786</b>	<b>31,057</b>
<b>Total amounts outstanding to related parties</b>	<b>11,975</b>	<b>49,846</b>

There were no amounts outstanding from related parties at December 31, 2014 and 2013.

#### Lundin Services BV

The Group receives technical and legal services from Lundin Services BV ("Lundin Services"), a wholly-owned subsidiary of Lundin Petroleum AB. The Chairman and Chief Executive Officer of Lundin Petroleum AB are Directors of the Company.

During the first quarter of 2014, Lundin Services sold its previously held €7.6 million principal amount of the 2011-2015 corporate bonds issued by the Company that were subsequently redeemed in April 2014. Lundin Services did not participate in the new corporate bond issue completed in April 2014.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2014

Expressed in US\$'000 unless otherwise stated

### 29. RELATED PARTIES (CONTINUED)

#### *Lundin family*

##### Corporate bond

During the first quarter of 2014, investment companies associated with the Lundin family sold their €15 million principal amount of the 2011-2015 corporate bonds issued by the Company that were redeemed in April 2014. Investment companies associated with the Lundin family subsequently subscribed for €15 million of the new corporate bond issue completed in April 2014. This position was later reduced to €9.9 million as of December 31, 2014.

##### Lundin family bridge Loan

In September 2013, the Group obtained a \$42 million unsecured loan facility from an investment company associated with the Lundin family at an annual interest rate of 12% with a 12-month maturity in order to fund its business development activities in Chile. In January 2014, the total outstanding amount under this facility of \$18.4 million, including accrued interest, was repaid. In addition, in October 2013, in connection with Project Salvador, a company affiliated with the Lundin family issued a \$42 million letter of credit to Total on behalf of Etrion for total consideration of 2,500,000 common shares in Etrion.

#### **(b) 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 and the Chief Financial Officer. Remuneration of key management personnel is as follows:

	2014	2013
	\$'000	\$'000
Salaries and short-term benefits	1,604	1,779
Pension costs	206	151
Board of Directors	325	360
Share-based payment	295	239
<b>Total</b>	<b>2,430</b>	<b>2,529</b>

Amounts outstanding to key management personnel at December 31, 2014 and 2013 are as follows:

	2014	2013
	\$'000	\$'000
Other (bonus payable and pension costs payable)	389	1,466
<b>Total</b>	<b>389</b>	<b>1,466</b>

There were no amounts outstanding from key management personnel at December 31, 2014 and 2013.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2014

*Expressed in US\$'000 unless otherwise stated*

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### 30. COMMITMENTS

#### *Contractual commitments*

The Group enters into engineering, procurement and construction agreements with large international contractors that design, construct, operate and maintain utility-scale solar photovoltaic power plants. As of December 31, 2014, the Group had contractual obligations over two years to acquire construction services in the amount of \$223 million related to the construction of the 70 MW Salvador solar power project in Chile and the 34 MW solar power projects in Japan, of which \$149 million has been paid. All of the contractual obligations will be funded from existing cash available or future cash flows from operations with no additional capital investments to be made by the Group. The Group also has contractual commitments associated with its lease contracts [Note 28](#).

#### *Capital investments*

As of December 31, 2014, Etrion had contributed all of its remaining capital commitments in the amount of approximately \$48.1 million, based on the Company's participation in the Chilean and Japanese project companies. At December 31, 2013, the Group had \$27 million of committed capital expenditure outstanding.

### 31. SUBSEQUENT EVENTS

#### *Italian tax reduction*

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 going forward. The removal of the Robin Hood tax reduces the ordinary income tax rate applicable to most energy companies in Italy from 34% to 27.5%. [Note 11](#)

#### *Project finance bank waiver*

On February 24, 2015, 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 total debt outstanding is not considered to be immediately repayable. The Group's reported working capital at December 31, 2014, included the long-term portion of the Helios ITA project loan due to the breach in covenants as of that date. Excluding this long-term portion of the project loan due to the subsequent receipt of the bank waiver, the Group's working capital at December 31, 2014, would have increased by \$29.0 million. Etrion's management and project finance banks are confident that financial and operational measures currently being implemented will improve Helios ITA's cash flows and consider the breach of covenants as a non-recurring event.



## BOARD AND MANAGEMENT

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### BOARD OF DIRECTORS

**Ian H. Lundin**

Non-Executive Chairman

**Marco A. Northland**

Chief Executive Officer and Director

**Garrett Soden**

Interim Chief Financial Officer and Director

**Ashley Heppenstall**

Independent Director

**Aksel Azrac**

Independent Director

**Tom Dinwoodie**

Independent Director

### MANAGEMENT

**Marco A. Northland**

Chief Executive Officer and Director

**Garrett Soden**

Interim Chief Financial Officer and Director

**Giora Salita**

Executive Vice President, Business Development and M&A

**Fernando Alvarez-Bolado**

Vice President, Engineering, Construction and Operations

**Christian Lacueva**

Vice President, Asset Management Services

**Martin Oravec**

Vice President, Structured Finance

**Cheryl Eversden**

Chief Financial Officer (*on maternity leave*)

## CORPORATE INFORMATION

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### AUDITORS

**PricewaterhouseCoopers SA**

Geneva, Switzerland

### LEGAL COUNSEL

**Norton Rose Fulbright Canada LLP**

Toronto, Canada

**Ashurst Advokatbyrå AB**

Stockholm, Sweden

### EXCHANGE LISTINGS

**Primary – Toronto Stock Exchange (Canada)**

Ticker symbol “ETX”

**Secondary – NASDAQ OMX (Sweden)**

Ticker symbol “ETX”

**Corporate Bonds – Oslo Stock Exchange (Norway)**

Ticker symbol “ETRION02”

### REGISTRAR AND TRANSFER AGENT

**Computershare**

Vancouver, Canada

Stockholm, Sweden

### SECURITIES FILINGS

SEDAR, [www.sedar.com](http://www.sedar.com)

### ETRION WEBSITE

[www.etrion.com](http://www.etrion.com)

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Etrion Services Chile SpA

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Las Condes, Santiago, Chile

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