Etrion Corporation

ANNUAL REPORT 2011




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CONTENTS

Etrion Corporation is an independent solar power producer listed on the Toronto Stock Exchange and the NASDAQ OMX Stockholm exchange (under the same ticker symbol, "ETX"). Etrion is based in Geneva, Switzerland and has an office in Rome, Italy.

Etrion is an independent power producer that owns and operates renewable assets. Etrion currently owns approximately 60 MW of operational, ground-based solar photovoltaic power plants in Italy.

CHIEF EXECUTIVE OFFICER'S LETTER

Dear Shareholders,

2011 was a challenging year for the solar market in Europe as a result of the financial crisis and changing government regulations. Despite these challenges, we completed the construction of 13 megawatts ("MW"), increasing our total installed capacity to 60 MW. We now have a strong cash flow platform that is fully financed and operating nearly 10% above budget. We are one of the largest solar power producers in Italy and one of the few publicly-traded, pure-play solar independent power producers.

2012 will be an exciting year as we pursue our plan to diversify into new markets, particularly the Americas. We believe that the accelerated reduction in the cost of solar modules experienced in 2011 presents an opportunity for Etrion to expand into new markets that are reaching grid parity, the point at which solar is competitive with traditional sources of energy. We will also focus on increasing our installed capacity and free cash flow to prepare the Company for future dividend distributions. We believe the Company is well positioned to expand, diversify and achieve sustainable growth based on market-driven energy contracts with industrial clients.

OPERATIONS

Etrion's current operations consist of 60 MW of ground-based solar photovoltaic parks located in Italy. The solar plants continue to exceed our cash flow and performance expectations. We are implementing several measures to further optimize our operations in Europe by centralizing functions and implementing new tools to help us optimize the portfolio. In addition, we are focusing our efforts on entering new markets where we believe the Company can achieve long-term growth and effectively compete with traditional energy sources.

GOVERNMENT POLICY

The renewable energy sector endures constant policy change. Governments enact subsidies to encourage solar power generation and constantly reduce these subsidies as costs to build solar power plants fall. We have witnessed an accelerated rate of cost decreases in the solar sector over the last couple of years as panel manufacturers experience increased competition, overcapacity and technology improvements.

Recent policy changes in Europe to decrease subsidies for solar power generation are a reaction to this dramatic cost reduction and the subsequent increase in installed capacity. However, as governments reduce subsidies, panel manufacturers and installers are forced to further reduce costs in order to give solar power producers like Etrion attractive targeted returns.

In addition, this dramatic reduction to the cost of solar panels creates new markets. We will now focus on developing our business model beyond subsidies to power purchase agreements ("PPAs") with industrial clients as costs continue to decrease and solar power becomes competitive with traditional sources in various markets.

FUNDING AND SHAREHOLDER SUPPORT

Our goal for 2012 is to establish operations in the Americas. Our main focus will be to build an attractive pipeline of projects with initial project realization in 2013. We will also look opportunistically at the acquisition of operating assets to complement our existing installed capacity. We will continue to explore efficient ways to fund growth through a combination of debt and equity.

In 2011, we issued €60 million of 4-year corporate bonds in the Norwegian bond market that enabled us to repay the shorter maturity loan obtained from Lundin Petroleum AB in 2010. In 2011, we also obtained a €28 million bridge loan from investment companies affiliated with the Lundin family in order to accelerate the construction of 13 MW. The bridge loan was repaid in the fourth quarter of 2011 using the drawdown of a non-recourse project loan facility.

We have strong banking relationships with the top European project finance lenders. These include Barclays, Centrobanca, Dexia, Deutsche Bank, Intesa Sanpaolo Group, Natixis, Societe Generale and WestLB.

FUNDING AND SHAREHOLDER SUPPORT (CONTINUED)

Our largest shareholder is the Lundin family, which owns approximately 25% of the Company's shares through various trusts. In addition to our primary listing on the Toronto Stock Exchange in Canada, we have a secondary listing on the NASDAQ OMX exchange in Sweden, which has enhanced the trading liquidity of the Company's shares and improved the Company's access to European investors. The Swedish market in particular has shown a strong interest in renewable investments.

GROWTH

I am excited about the future in renewable energy. A lot has been said about solar energy reaching grid parity in the near future, and I believe we are in a good position to take advantage of this development and to take the Company to the next level of growth. This will require shifting our business model to long-term PPAs as we move away from subsidies, but technology prices will continue to drop and grid parity will be reached in various regions. While challenges remain, the industry is working diligently to reduce costs and introduce new solutions to be competitive with other sources of energy.

Thank you for your continued support.

(signed) "Marco A. Northland"

Marco A. Northland, CEO and Director

The foregoing contains forward-looking information within the meaning of applicable Canadian securities legislation including, without limitation, statements with respect to Etrion's projects under development and growth plans. Readers are cautioned that actual results may vary from the forward-looking information. For a detailed discussion of the risks, uncertainties and assumptions associated with such forward-looking information, readers should refer to the Management Discussion and Analysis for the year ended December 31, 2011, attached hereto and Etrion's Annual Information Form for the year ended December 31, 2011, available on SEDAR at www.sedar.com.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended December 31, 2011

CONTENTS

INTRODUCTION

The following 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 29, 2012, should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes for the year ended December 31, 2011. Financial information is reported in United States dollars ("$"). However, as the Group primarily operates in Europe, certain financial information has been reported in Euros ("€"). At December 31, 2011, the €/$ exchange rate was 1.29 (2010: 1.34), and the average exchange rate for the year was 1.39 (2010: 1.32).

The capacity of power plants in this document is described in approximate MW on a direct current basis, also referred to as megawatt-peak (MWp).

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 31.

2011 HIGHLIGHTS

OPERATIONAL

- Produced 88.3 million (2010: 20.9 million) kilowatt-hours ("kWh") of solar electricity from seven solar power projects (Cassiopea, Helios ITA-3, Centauro, Helios ITA, Etrion Lazio, SVE and Nettuno) during the year ended December 31, 2011.
- Completed construction of the 10 MW Helios ITA-3 and 2.6 MW Nettuno solar power projects, both connected to the electricity grid in August 2011.

FINANCIAL

- Generated solar electricity revenues of $51.9 million (2010: $11.6 million) during the year ended December 31, 2011.
- Recognized adjusted earnings before interest, taxation, depreciation and amortization ("EBITDA") for the renewable energy segment of $47.6 million (2010: $8.4 million) during the year ended December 31, 2011.
- Issued, in April 2011, $77.4 million (€60 million) of corporate bonds in the Norwegian bond market at 9% annual interest with a 4-year maturity.
- Repaid, in May 2011, the outstanding principal and interest associated with the $77.4 million (€60 million) credit facility provided by a subsidiary of Lundin Petroleum AB.
- Repaid, in November 2011, the $36.1 million (€28 million) bridge loan from investment companies associated with the Lundin family.
- Completed, in the fourth quarter of 2011, the drawdown of $51.0 million (€39.5 million) from the non-recourse loan facility with Natixis, WestLB and Mediocreval in connection with the Helios ITA-3 and Nettuno solar power projects.

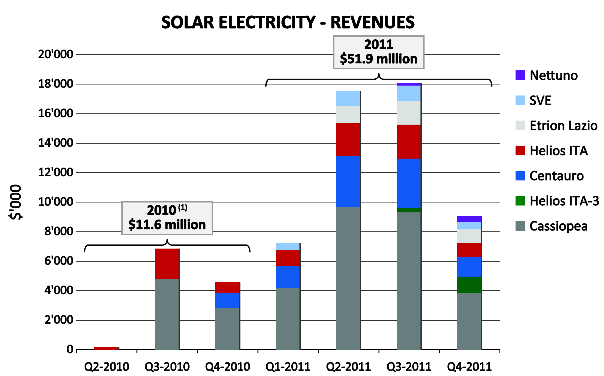
BUSINESS REVIEW

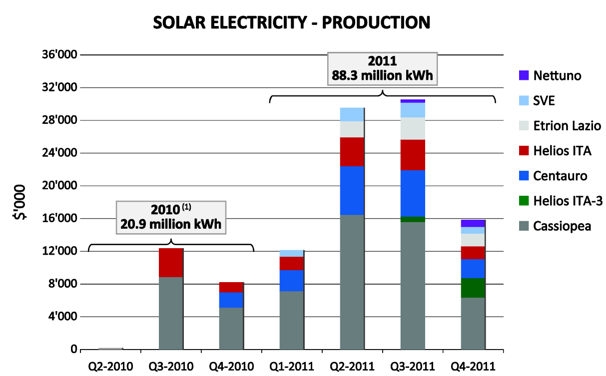
Etrion is an independent power producer focused on acquiring, developing, building, owning and operating solar power plants. The Group currently owns approximately 60 MW of operational, ground-based solar photovoltaic ("PV") power plants.

Etrion initially focused on countries with government incentives for solar power production, specifically Feed-in-Tariff ("FiT") environments like Italy. The Italian FiT is a 20-year commitment from the government to purchase 100% of a solar park's electricity production at a premium constant rate. However, as a result of the accelerated cost reductions of solar electricity and the market evolving beyond the need for government incentives, the Group's long-term growth is expected to be in markets with high irradiation and large energy demand where the Group would enter PPAs with industrial clients. Future growth will be driven by the development and acquisition of additional renewable power facilities under long-term contracts in markets with high electricity prices and attractive solar irradiation.

RESULTS AT A GLANCE

During the year, the Group recognized revenues from seven solar power projects in Italy (Cassiopea, Helios ITA-3, Centauro, Helios ITA, Etrion Lazio, SVE and Nettuno). During 2010, the Group recognized revenue from three solar power projects (Cassiopea, Centauro and Helios ITA). Solar-related revenues experience seasonality over the year due to the variability of daily sun hours in the summer versus the winter months.





Note:

(1) The Group recognized its first revenues from the sale of solar electricity in June 2010.

Financial highlights for the year ended December 31, 2011 and 2010 for the Group's renewable energy segment are as follows:

Renewable energy segment	2011 $'000	2010 $'000
Revenue	**51,910**	**11,565**
Renewable segment EBITDA[(1)]	49,218	8,437
- Liquidation damages[(2)]	(3,107)	-
- EPC contract cancellation fee[(3)]	185	-
- Impairment[(4)]	1,315	-
Adjusted renewable segment EBITDA	**47,611**	**8,437**
Adjusted EBITDA margin (%)	**92%**	**73%**

Notes:

(1) Refer also to "Results from renewable energy segment" on page 13 for EBITDA generated from the Group's renewable energy segment.

(2) During the year ended December 31, 2011, the Group recognized a gain of $3.1 million from liquidation damages related to delays encountered by the engineering, procurement and construction ("EPC") contractors responsible for the construction of three of the Group's solar power projects (Helios ITA, Etrion Lazio and SVE).

(3) During the year ended December 31, 2011, the Group recognized an expense of $0.2 million for the EPC contract cancellation fee related to the Helios ITA-3 solar power project.

(4) During the year ended December 31, 2011, the Group recognized an impairment loss of $1.3 million (2010: $nil) in relation to the development pipeline in Italy due to recent changes in the solar FiT regime.

RESULTS AT A GLANCE (CONTINUED)

Production and pricing information for the year ended December 31, 2011 and 2010, are as follows:

	2011			2010		
	MWh[1]	Price[2] ($/kWh)	Revenue $'000	MWh[1]	Price[2] ($/kWh)	Revenue $'000
FiT revenues (based on actual production)[3]	88,288	0.48	42,378	20,939	0.46	9,632
Market Price revenues (based on evacuated production)[4]	86,654	0.11	9,532	19,330	0.10	1,933
Total revenue			**51,910**			**11,565**

Notes:

(1) Production is based on megawatt-hours ("MWh") of electricity produced.

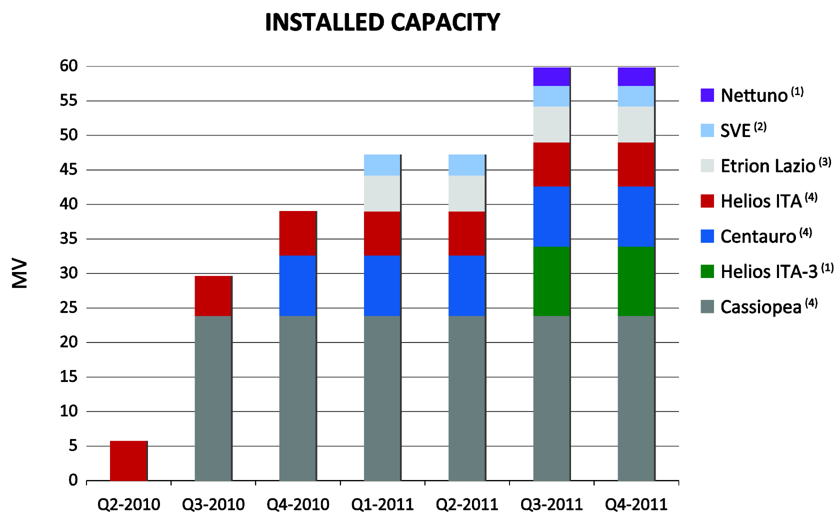
(2) Prices are received in Euros and have been translated at the average €/$ exchange rate for the year ended December 31, 2011, of 1.39 (2010: 1.32).

(3) The FiT is received on kWh of electricity produced. Production information is based on estimates until confirmed by the Italian government through the state-owned company, Gestore Servici Energetici ("GSE").

(4) The spot market price ("Market Price") is received in addition to the FiT. The Market Price is based on evacuated production (i.e., electricity produced less transmission losses). Production and pricing information is based on estimates until confirmed by the local utilities, Enel S.p.A. and Terna S.p.A.

SOLAR ENERGY PROJECTS

The following is a summary of the Group's total installed capacity of approximately 60 MW at December 31, 2011:



Notes:

(1) Nettuno and Helios ITA-3 were installed and connected to the electricity grid in August 2011.

(2) SVE was installed in 2010 with the first revenues being recognized in the first quarter of 2011.

(3) Etrion Lazio was installed at the end of 2010. However, the project was not connected to the electricity grid until April 2011.

(4) Revenues were recognized from Helios ITA, Cassiopea and Centauro as of the acquisition date: June 24, 2010, August 5, 2010, and October 1, 2010, respectively.

SOLAR ENERGY PROJECTS (CONTINUED)

The Group has grown its renewable energy segment significantly through the acquisition and internal development of several solar power projects in Italy as follows:

- Acquisition of Solar Resources Holding Sarl ("SRH"), the Company's European subsidiary focusing on solar energy projects, in September 2009;
- Acquisition and development of the 3.0 MW SVE solar power project in October 2009;
- Acquisition of the 6.4 MW Helios ITA solar power project in June 2010;
- Acquisition of the 23.9 MW Cassiopea solar power project in August 2010;
- Acquisition of the 8.7 MW Centauro solar power project in October 2010;
- Development of the 5.2 MW Etrion Lazio solar power project in December 2010;
- Development of the 10 MW Helios ITA-3 solar power project in August 2011; and
- Development of the 2.6 MW Nettuno solar power project in August 2011.

The Group's business process can be described as going through four key phases:

- Phase 1, site development, generally requires twelve to twenty-four months, during which time site surveys are carried out in order to identify the most favorable locations for planned solar power projects (considering solar irradiation levels and the FiT for the sale of electricity to the electricity grid) and the necessary permits and grid connection authorizations are obtained;
- Phase 2, project financing, generally takes four to six months, during which the Group assesses and selects financing partners;
- Phase 3, construction, generally takes six to nine months, during which the Group closes the financial aspects of the project, engages a turn-key EPC contractor to build the solar power projects and ensures compliance with local regulations and FiT requirements; and
- Phase 4, operations, lasts a minimum period of 20 years in Italy, during which the Group operates the solar power projects by engaging an operations and maintenance ("O&M") contractor, and the project company generates cash flow and repays the non-recourse debt facilities incurred in connection with the project.

The following is a summary of the Group's current operating solar power projects:

Project	Region	Sites	Capacity (MW)	Technology	Contractor	Panels	Inverters	Connection date	FiT[1]
Cassiopea	Lazio	1	23.9	Single axis	SunPower	SunPower	SMA	Nov-09	€0.353
Helios ITA-3 (Brindisi, Mesagne)	Puglia	2	10.0	Single axis	ABB	Yingli	Bonfiglioli	Aug-11	€0.250
Centauro	Lazio	1	8.7	Single axis	SunPower	SunPower	SMA	Jul-10	€0.346
Helios ITA[2]	Puglia	7	6.4	Single axis	Solon	Solon	Santerno	Dec-09	€0.353
Etrion Lazio (Borgo Piave, Rio Martino)[3]	Lazio	2	5.2	Fixed-tilt	Phoenix	Trina	SMA	Apr-11	€0.346
SVE (Oria, Matino, Ruffano)	Puglia	3	3.0	Single axis	SunPower	SunPower	Siemens	Dec-10	€0.346
Nettuno	Lazio	1	2.6	Fixed-tilt	Phoenix	Trina	SMA	Aug-11	€0.250
Total		**17**	**59.8**						

Notes:

(1) FiT per kWh, based on connection date. Revenues are based on FiT plus Market Price.

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

(3) Etrion Lazio was installed at the end of 2010. However, the project was not connected to the electricity grid until April 2011.

SOLAR ENERGY PROJECTS (CONTINUED)

The following map details the location of the Group's solar power projects in Italy:

Cassiopea

The Cassiopea project in Montalto di Castro in the Lazio region of Italy consists of one ground-mounted solar PV park with a total capacity of 23.9 MW. The solar park was connected to the electricity grid in November 2009. The Cassiopea solar park was built by SunPower Corporation ("SunPower"), a US-based solar panel manufacturer and installer, using high efficiency SunPower modules mounted on single axis trackers with power conversion completed through SMA inverters. Cassiopea has an O&M contract with SunPower, including preventive and corrective maintenance.

The solar park benefits from the 2009 FiT of \$0.455 (€0.353) per kWh plus the Market Price of approximately \$0.10 (€0.08) per kWh.

Helios ITA-3

The Helios ITA-3 project in Puglia, Italy, consists of two ground-mounted solar PV parks: Brindisi (5.0 MW) and Mesagne (5.0 MW). Both parks were completed and connected to the electricity grid in August 2011. The Helios ITA-3 solar parks were built by ABB S.p.A. ("ABB"), the Swiss power and automation technology group, using Yingli poly-crystalline PV modules mounted on SunPower single axis trackers with power conversion completed through Bonfiglioli inverters. Helios ITA-3 has an O&M contract with ABB, including preventive and corrective maintenance.

Both solar parks benefit from the August 2011 FiT of \$0.323 (€0.250) per kWh plus the Market Price of approximately \$0.10 (€0.08) per kWh.

SOLAR ENERGY PROJECTS (CONTINUED)

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 8.7 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 completed through SMA inverters. Centauro has an O&M contract with SunPower, including preventive and corrective maintenance.

The solar park benefits from the 2010 FiT of $0.446 (€0.346) per kWh plus the Market Price of approximately $0.10 (€0.08) 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 S.p.A. ("Solon"), a German solar panel manufacturer and installer, using single axis trackers with Solon poly-crystalline modules and Santerno inverters. Helios ITA has an O&M contract with Solon, including preventive and corrective maintenance.

Six of the Helios ITA solar parks, just under 1.0 MW each for a total of 5.9 MW, benefit from the 2009 FiT of $0.455 (€0.353) per kWh plus the Market Price of approximately $0.10 (€0.08) per kWh. The last park built (0.5 MW) benefits from the 2010 FiT of $0.446 (€0.346) per kWh plus the Market Price of approximately $0.10 (€0.08) 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 (1.7 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 completed through SMA inverters. Etrion Lazio has an O&M contract with Phoenix, including preventive and corrective maintenance.

Both solar parks benefit from the 2010 FiT of $0.446 (€0.346) per kWh plus the Market Price of approximately $0.10 (€0.08) per kWh.

SVE

The SVE project in Puglia, Italy, consists of three ground-mounted solar PV parks: Oria (1.0 MW), Matino (1.0 MW) and Ruffano (1.0 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 completed through Siemens inverters. SVE has an O&M contract with SunPower, including preventive and corrective maintenance.

All three solar parks benefit from the 2010 FiT of $0.446 (€0.346) per kWh plus the Market Price of approximately $0.10 (€0.08) per kWh.

Nettuno

The Nettuno 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 Nettuno solar park was built by Phoenix using Trina poly-crystalline PV modules installed on fixed-tilt structures with power conversion completed through SMA inverters. Nettuno has an O&M contract with Phoenix, including preventive and corrective maintenance.

The solar park benefits from the August 2011 FiT of $0.323 (€0.250) per kWh plus the Market Price of approximately $0.10 (€0.08) per kWh.

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 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, natural gas and nuclear energy. In order to achieve this, the conversion efficiency of solar modules needs to increase, and the cost of building solar PV power systems needs to decrease. The Company's management expects some countries to reach grid parity within the next five years.

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 global, national and regional levels to support the development and use of renewable energy sources; and
- attractive government incentives, such as FiT, capital subsidies and tax incentives.

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 (i.e., PV energy) and energy generated from solar collectors (i.e., thermal energy or heat).

ITALIAN MARKET

In 2005, the Italian government introduced a FiT system in order to encourage expansion of solar energy. The strong growth of solar installed capacity since 2005 is largely attributable to the attractive FiT program, strong irradiation and high electricity prices. The Italian state-owned company, GSE, is responsible for managing the subsidy program, but the actual cost of the subsidy is paid by the ultimate consumer through a small tax on utility bills.

The Italian FiT program results in a premium price for renewable electricity that is guaranteed by the Italian government for a period of 20 years at a set price based on the connection date. Since 2005, the Italian FiT for new projects has been revised to account for the decreasing cost to build solar power generation.

In addition to the FiT, solar power generators receive the spot market rate on a per kWh basis. The Market Price in 2010 and 2011 was approximately $0.10 (€0.08) per kWh of energy produced.

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 (per kWh)(1)	$0.323 (€0.250)	$0.446 (€0.346)	$0.455 (€0.353)
Duration	20 years	20 years	20 years

Note:

(1) Prices are quoted in Euros and have been translated at the closing €/$ exchange rate of 1.29 at December 31, 2011.

On May 5, 2011, the Italian government approved a decree establishing new tariffs for solar PV plants entering into operation from June 1, 2011, through December 31, 2016. The decree provides for tariffs to be granted to solar parks based on the type of solar plant installed and the date of grid connection, with annual caps on installed solar capacity.

In addition, on March 3, 2011, the Italian government approved a decree that includes land restrictions for solar PV plants installed on agricultural land after March 29, 2012.

MARKET OVERVIEW (CONTINUED)

ITALIAN MARKET (CONTINUED)

The reduced FiT impacted the Group's development pipeline in Italy. However, the Group's operational solar power projects were not affected by the new decree.

COMPETITION

The solar energy industry is intensely competitive and the Group competes with a substantial number of developers, power producers and financial investors, many of which have greater financial and operational resources. Due to the oversupply and declining prices in the upstream solar market value chain (i.e., companies sourcing raw materials and manufacturing parts and modules), the current trend is that companies are moving downstream for better margins, creating more competition for Etrion. Depending on the financial climate, the Group may also face competition when seeking to raise equity or external debt for its planned development. However, once the Group has acquired the necessary land for a solar power project, secured financing and fulfilled the requirements for the FiT, the Group is able to sell 100% of electricity produced to the grid at the FiT and spot market rates, similarly to its competitors.

OTHER MARKETS

Incentive structures for solar power generation currently exist in many markets, including France, Germany, Australia and North America, and are a key driver for market growth. The aim of the incentives is to increase investment in solar power generation in order to deliver greater efficiency and cost reductions.

The Group is currently contemplating whether to expand into the Americas, seeking to diversify through new opportunities. The Group believes that the cost of solar generation has dropped sufficiently to enable the Group to actively pursue opportunities outside FiT subsidy structures (i.e., PPAs).

PERFORMANCE DRIVERS

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

- Stable revenue:
  - Premium price for solar electricity generation under long-term contracts (i.e., PPAs or FiT);
  - Solar irradiation varies less than 10% annually; and
  - Economic growth increases power demand and wholesale electricity prices.
- Minimal variable operating costs:
  - Cost reduction through increased supply, competition and technological improvements in the upstream solar sector; and
  - Fixed price O&M contracts, including preventive and corrective maintenance.
- Financing and gearing of projects:
  - Project financing of 80% to 85% using non-recourse project loans;
  - Vendor financing from solar power project contractors of up to 70% of construction costs; and
  - Long-term hedging arrangements to minimize interest rate risk.

FINANCIAL REVIEW

FINANCIAL RESULTS

2011 Results

The Company's selected consolidated financial information for the year ended December 31, 2011 and 2010, prepared in accordance with International Financial Reporting Standards ("IFRS"), is as follows:

	2011 $'000	2010 $'000	2009 $'000
Revenue	**51,910**	**11,565**	**-**
Gross profit	**31,138**	**5,064**	**-**
Net loss	**(26,289)**	**(18,121)**	**(58,980)**
Adjustments for non-recurring items:			
- Liquidation damages	(3,107)	-	-
- Impairment for oil and gas investments	7,940	-	44,047
- Impairment for development pipeline in Italy	1,732	-	-
- Equity-based financing fee	3,246	-	-
- EPC contract cancellation fee	185	-	-
- Exchange right (non-cash compensation expense)	437	4,778	892
- Guaranteed floor associated with exchange right	-	-	5,464
- Termination and severance payments	211	730	150
- Non-recurring professional fees	-	1,817	-
Adjusted net loss	**(15,645)**	**(10,796)**	**(8,427)**
Basic and diluted loss per share (net loss)	$(0.14)	$(0.11)	(0.37)
Basic and diluted loss per share (adjusted net loss)	$(0.08)	$(0.06)	(0.05)
Net loss	**(26,289)**	**(18,121)**	**(58,980)**
Items not affecting operating cash flow:			
- Net income tax expense/(recovery)	5,508	(587)	92
- Impairment loss	9,672	-	44,047
- Disposal of fixed assets	-	35	-
- Depreciation and amortization	18,992	5,990	234
- Share-based payment expense	1,105	5,644	1,567
- Net finance costs	29,424	4,344	426
- Income tax paid	(4,934)	-	-
- Changes in working capital	(35,361)	3,548	12,395
Operating cash flow	**(2,153)**	**853**	**(219)**
Total assets	467,576	446,216	42,250
Total non-current liabilities	425,696	279,745	2,753
Dividends declared	-	-	-

During the year ended December 31, 2011, the Group recognized revenue of $51.9 million (2010: $11.6 million) from seven solar power projects (Cassiopea, Helios ITA-3, Centauro, Helios ITA, Etrion Lazio, SVE and Nettuno) compared to three in the prior year (Cassiopea, Centauro and Helios ITA). This resulted in a positive gross profit from operations of $31.1 million (2010: $5.1 million) during the year.

During the year ended December 31, 2011, the Group reported a net loss of $26.3 million (2010: $18.1 million). The net results for the year ended December 31, 2011, were impacted by the following items:

- gain of $3.1 million from liquidation damages related to delays encountered by the EPC contractors responsible for the construction of three of the Group's solar power projects (Helios ITA, Etrion Lazio and SVE);
- impairment loss of $9.7 million related to the Group's oil and gas investments ($7.9 million) and development pipeline of solar power projects in Italy ($1.7 million);
- expense of $3.2 million for the equity-based financing fee associated with the bridge loan obtained from investment companies associated with the Lundin family;
- non-cash compensation expense of $0.4 million related to the 10% equity interest in the Company's subsidiary, SRH held by Marco A. Northland, the Chief Executive Officer and Director of the Company ("Mr. Northland");

FINANCIAL RESULTS (CONTINUED)

2011 Results (continued)

- expense of $0.2 million for the EPC contract cancellation fee related to the Helios ITA-3 solar power project; and
- termination and severance payments of $0.2 million related to an employee who left the company during the year.

The net results for the year ended December 31, 2010, were impacted by the following items:

- non-cash compensation expense of $4.8 million related to Mr. Northland's 10% equity interest in the Company's subsidiary, SRH;
- termination and severance payments of $0.7 million related to the closure of the Group's legacy oil and gas office and termination payments made in Italy to a former general manager; and
- professional fees of $1.8 million related to acquisition costs directly attributable to the Group's business combinations made during the year, the Company's secondary listing on the NASDAQ OMX Exchange in Sweden ("NASDAQ OMX") and the change in the Company's listing category on the Toronto Stock Exchange in Canada ("TSX").

Results from renewable energy segment

The following is an analysis of the Group's renewable energy segment revenues, EBITDA and results for the year ended December 31, 2011:

	Renewable energy $'000	Corporate $'000	Total $'000
Revenue	51,910	-	51,910
Operating expenses (excluding depreciation and amortization)	(2,115)	-	(2,115)
General and administrative expenses (excluding depreciation and amortization)	(2,309)	(12,499)	(14,808)
Impairment	(1,315)	(8,357)	(9,672)
Other income/expenses	3,047	140	3,187
Segment EBITDA	**49,218**	**(20,716)**	**28,502**
Depreciation and amortization	(18,658)	(334)	(18,992)
Finance income	1,745	60	1,805
Finance costs	(22,575)	(9,521)	(32,096)
Income/(loss) before income tax	**9,730**	**(30,511)**	**(20,781)**
Income tax expense	(5,344)	(164)	(5,508)
Income/(loss) for the year	**4,386**	**(30,675)**	**(26,289)**

The following is an analysis of the Group's renewable energy segment revenues, EBITDA and results for the year ended December 31, 2010:

	Renewable energy $'000	Corporate $'000	Total $'000
Revenue	11,565	-	11,565
Operating expenses (excluding depreciation and amortization)	(751)	-	(751)
General and administrative expenses (excluding depreciation and amortization)	(2,377)	(16,496)	(18,873)
Segment EBITDA	**8,437**	**(16,496)**	**(8,059)**
Depreciation and amortization	(5,749)	(241)	(5,990)
Finance income	3,826	1,635	5,461
Finance costs	(5,315)	(4,805)	(10,120)
Income/(loss) before income tax	**1,199**	**(19,907)**	**(18,708)**
Income tax recovery	513	74	587
Income/(loss) for the year	**1,712**	**(19,833)**	**(18,121)**

FINANCIAL RESULTS (CONTINUED)

2011 Results (continued)

Results from renewable energy segment (continued)

Assets related to the Group's renewable energy segment included within property, plant and equipment and intangible assets at December 31, 2011, and December 31, 2010, were as follows:

	2011 $'000	2010 $'000
Property, plant and equipment	363,790	340,883
Intangible assets	10,740	11,630
Total assets	**374,530**	**352,513**

Revenue

	2011 $'000	2010 $'000
FiT revenue	42,378	9,632
Market Price revenue	9,532	1,933
Total revenue	**51,910**	**11,565**

The Group recognized revenues during the year ended December 31, 2011, from seven solar power projects compared to three in the prior year. Revenues are generated from the FiT and Market Price, both paid by Italian state-owned companies. Refer to "Market Overview" on pages 10 and 11.

Operating expenses

	2011 $'000	2010 $'000
Operating and maintenance expenses	496	111
Depreciation and amortization	18,658	5,749
Insurance	635	305
Land lease expenses	224	146
Other operating expenses	759	190
Total operating expenses	**20,772**	**6,501**

O&M expenses of $0.5 million (2010: $0.1 million) relate to fees paid in connection with the operation and maintenance of the Group's solar power projects in Italy. The Group outsources O&M services to third parties.

Depreciation and amortization of $18.7 million (2010: $5.7 million) was recognized during the year ended December 31, 2011, related to the Group's operating solar power projects producing electricity during the year.

General and administrative expenses

	2011 $'000	2010 $'000
Salaries and benefits	6,485	4,292
Pension costs	239	186
Board of Directors fees	240	240
Share-based payment expense (non-cash item)	1,105	5,644
Corporate and professional fees	3,116	4,024
Listing, filing and marketing expenses	499	373
Depreciation and amortization	334	241
Office lease expenses	466	433
Office, travel and other general and administrative expenses	2,659	3,680
Total general and administrative expenses	**15,143**	**19,113**

FINANCIAL RESULTS (CONTINUED)

2011 Results (continued)

General and administrative expenses (continued)

During the year ended December 31, 2011, the Group recognized $1.1 million (2010: $5.6 million) of expenses related to the Company's equity-settled, share-based compensation plan. At December 31, 2011, the Group had approximately 4,367,200 (2010: 8,052,200) stock options outstanding, of which approximately 2,482,399 (2010: 4,671,668) were exercisable. The share-based payment expense also includes $0.4 million (2010: $4.8 million) related to Mr. Northland's 10% equity interest in the Company's subsidiary, SRH. Refer to "Related Party Transactions" on page 27.

Corporate and professional fees of $3.1 million (2010: $4.0 million) incurred during the year ended December 31, 2011, related to legal and accounting fees paid in relation to the Group's statutory reporting obligations, the Company's listing requirements on the TSX and the NASDAQ OMX and business development activities that took place during the year.

During the year ended December 31, 2011, $0.4 million (2010: $0.9 million) of salaries and benefits were capitalized within property, plant and equipment in connection with construction services provided to the Helios ITA-3 and Nettuno solar power projects (2010: Helios ITA-3 and Etrion Lazio).

Depreciation and amortization of $0.3 million (2010: $0.2 million) was recognized during the year ended December 31, 2011, related to depreciation and amortization of the Group's corporate assets. Depreciation and amortization associated with the Group's operating solar power projects is included within operating expenses.

Impairment

	2011 $'000	2010 $'000
Oil and gas investments	7,940	-
Development pipeline in Italy	1,732	-
Total impairment	**9,672**	**-**

Oil and gas investments

The Group's wholly-owned subsidiary, PFC Oil & Gas, CA ("PFC"), holds investments in two oil and gas companies, PetroCumarebo SA and Baripetrol SA. At December 31, 2010, these investments were accounted for at cost less impairment as the fair value of the investments could not be measured reliably. Given the uncertainties associated with the political environment in Venezuela and the increased passage of time with no dividends being declared and paid to the Group by its oil and gas investments, during the year ended December 31, 2011, the Group recognized a further impairment loss of $7.9 million (2010: $nil) because the carrying value of the investments exceeded the expected recoverable amount. The recoverable amount is based on management's best estimate of the selling price less costs to sell.

Development pipeline in Italy

In March 2011, the Italian government approved a decree that included land restrictions for solar PV plants installed on agricultural land after March 2012. Specifically, the decree, applicable to PV plants authorized after March 29, 2011 and to previously connected plants if not connected by March 29, 2012, included: (a) a 1 MW cap for ground-mounted PV plants installed on agricultural land; and (b) a ground coverage restriction up to 10% for PV plants installed on agricultural land (i.e., the PV plant can only cover up to 10% of the relevant land area). These restrictions impacted the Group's development pipeline in Italy and, as a result, during the year ended December 31, 2011, the Group assessed its non-operating assets for impairment and recognized an impairment loss of $1.7 million (2010: $nil) reducing the carrying value of property, plant and equipment, intangible assets and available for sale investments.

FINANCIAL RESULTS (CONTINUED)

2011 Results (continued)

Other income/expenses

	2011 $'000	2010 $'000
Liquidation damages	3,107	-
EPC contract cancellation fee	(185)	-
Right of use	48	-
Other income	217	-
Total other income	**3,187**	**-**

During the year ended December 31, 2011, the Group recognized a gain of $3.1 million (2010: $nil) from liquidation damages related to delays encountered by the EPC contractors responsible for the construction of three of the Group's solar power projects (Helios ITA, Etrion Lazio and SVE).

During the year ended December 31, 2011, the Group recognized an expense of $0.2 million for the EPC contract cancellation fee related to the Helios ITA-3 solar power project.

Net finance costs

	2011 $'000	2010 $'000
Finance income:		
- Fair value movements on interest rate swap contracts and warrants	1,116	5,367
- Other finance income	689	94
Total finance costs	**1,805**	**5,461**
Finance costs:		
- Interest expense associated with non recourse project loans	18,244	7,059
- Interest expense and early redemption fee associated with corporate borrowings	12,071	1,569
- Transaction costs	914	531
- Fair value movements on interest rate swap contracts	1,355	660
- Foreign exchange loss	391	298
- Other finance costs	1,294	357
- Finance costs capitalized	(2,173)	(354)
Total finance income	**32,096**	**10,120**
Net finance costs	**30,291**	**4,659**

During the year ended December 31, 2011, the Group recognized interest expense of $18.2 million (2010: $7.1 million) related to five non-recourse project loans (2010: three non-recourse project loans) associated with its solar power projects in Italy. The loan agreements bear interest at 6-month Euribor plus a variable margin, payable semi-annually until maturity and are hedged through interest rate swap contracts. Refer to "Non-recourse project loans" on pages 20 and 21.

In addition, during the year ended December 31, 2011, the Group recognized interest expense of $12.1 million (2010: $1.6 million) related to its corporate borrowings. Refer to "Corporate borrowings" on page 21.

During the year ended December 31, 2011, the Group recognized a net fair value loss of $0.2 million (2010: $4.7 million) related to fair value movements associated with the Group's interest rate swap contracts. At December 31, 2011, all of the Group's interest rate swap contracts qualified for hedge accounting, with changes in fair value recognized within other comprehensive income.

FINANCIAL REVIEW (CONTINUED)

FINANCIAL RESULTS (CONTINUED)

2011 Results (continued)

Income tax expense

	2011 $'000	2010 $'000
Current income tax expense/(recovery):		
Corporate income tax	5,411	406
Municipal income tax	1,846	279
Tax recovery on warrants	-	(256)
Total income tax expense:	**7,257**	**429**
Deferred income tax expense/(recovery)		
Current year	1,238	688
Tax benefits	(2,987)	(1,704)
Total deferred income tax recovery	**(1,749)**	**(1,016)**
Total income tax expense/(recovery)	**5,508**	**(587)**

During the year ended December 31, 2011, the Group recognized an income tax expense of $7.2 million (2010: $0.6 million) associated with its Italian solar power projects and an income tax expense of $0.1 million (2010: $0.1 million) associated with its Swiss subsidiary. In addition, during the year ended December 31, 2010, the Group recognized a tax recovery of $0.3 million on warrants that expired during the year.

During the year ended December 31, 2011, the Group recognized a deferred income tax expense of $1.2 million (2010: $0.7 million) related to temporary differences arising between the tax bases of assets and liabilities and their carrying amounts and a deferred income tax credit of $2.9 million (2010: $1.7 million) associated with unutilized tax losses related to non-deductible interest carried forward in Italy (i.e., 30% of EBITDA).

Quarterly results

The following is a summary of the Company's selected consolidated financial information, prepared in accordance with IFRS, for the last eight quarters (presented in $'000, except for per share data, which is presented in $):

	2011				2010			
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Revenue	8,585	18,219	17,829	7,277	4,605	6,833	127	-
Net loss(1)	(19,795)	(2,849)	(2,124)	(1,521)	(4,019)	(6,376)	(4,191)	(3,535)
Basic and diluted loss per share	(0.11)	(0.02)	(0.01)	(0.01)	(0.02)	(0.04)	(0.03)	(0.02)

Note:

(1) Net loss for the period includes both the net loss from continuing operations and the net loss attributable to owners of the parent company.

The quarterly results for 2011 are not comparable to 2010 as the Group recognized its first revenues from the sale of solar electricity in June 2010 and during the year ended December 31, 2011 the Group commenced producing solar electricity from four additional solar power projects (Helios ITA-3, Etrion Lazio, SVE and Nettuno). In addition, solar-related revenues experience seasonality over the year due to the variability of daily sun hours in the summer versus the winter months.

The effect of exchange rate movements had an insignificant impact on the Group's quarterly results, due to the fact that monetary assets and liabilities held by the Group's subsidiaries are primarily held in the individual subsidiaries' functional currency. Furthermore, the Group recognized a foreign exchange loss of $0.3 million (2010: $0.6 million) during the fourth quarter of 2011.

FINANCIAL RESULTS (CONTINUED)

Quarterly results (continued)

Fourth quarter 2011

The Group recognized a net loss of $19.8 million during the fourth quarter of 2011 compared to a net loss of $4.0 million in the comparable period of 2010, primarily attributable to the impairment loss recognized in 2011 of $9.7 million (2010: $nil) associated with the Group's oil and gas investments and development pipeline in Italy (refer to "Impairment" on page 15).

During the three months ended December 31, 2011, the Group recognized revenues of $8.6 million compared to $4.6 million in the comparable period of 2010, due to seven projects being operational in the fourth quarter of 2011 compared to three projects in the fourth quarter of 2010.

During the fourth quarter of 2011, the Group completed the drawdown of $51.0 million (€39.5 million) from the non-recourse project loan with Natixis, WestLB and Mediocreval in connection with the Helios ITA-3 and Nettuno solar power projects. In November 2011, the proceeds were used to repay the $36.1 million (€28 million) bridge loan obtained from investment companies associated with the Lundin family.

FINANCIAL POSITION

During the year ended December 31, 2011, the Group's net assets decreased by $32.2 million from $34.8 million at December 31, 2010, to $2.6 million at December 31, 2011. The decrease in net assets was primarily due to the net loss incurred during the year of $26.3 million (2010: $18.1 million) and net fair value losses of $13.3 million (2010: gain of $3.0 million) associated with the Group's interest rate swap contracts accounted for within other reserves offset by a $5.6 million equity-based financing fee associated with the bridge loan obtained from investment companies associated with the Lundin family.

Liquidity and financing

At December 31, 2011, the Group had cash and cash equivalents of $39.7 million (December 31, 2010: $45.0 million) and positive working capital (i.e., current assets less current liabilities) of $20.1 million (December 31, 2010: negative $73.3 million). Refer to "Going Concern" on pages 21 and 22.

The Group is well positioned to generate significant operating cash flows in 2012 and 2013 from its solar power projects to meet its obligations and expects to finance the construction of future projects and the acquisition of new projects with a combination of cash and cash equivalents, additional corporate equity or debt financing, vendor financing and non-recourse project loans, as required.

At December 31, 2011, the Group's contractual obligations included only its borrowings entered into at the project level (i.e., non-recourse project loans) and corporate level (i.e., corporate bond). Refer to "Borrowings" on pages 19, 20 and 21. At December 31, 2010, in addition to contractual obligations for its borrowings, the Group had capital commitments related to the construction of the Helios ITA-3 solar power project. Refer to "Capital Investments" on page 23.

FINANCIAL POSITION (CONTINUED)

Liquidity and financing (continued)

The following is a summary of the Group's committed capital expenditure and financing at December 31, 2011 and 2010, translated at the €/$ exchange rate of 1.29 at December 31, 2011, and 1.34 at December 31, 2010:

	At December 31, 2010		At December 31, 2011			Variance		
	Total capital expenditure(1) $'000	Expected financing $'000	Total capital expenditure(1) $'000	Actual financing $'000	Expected financing(2) $'000	Total capital expenditure(3) $'000	Financing(4) $'000	Total variance $'000
Helios ITA-3	56,936	47,696	52,869	42,053	1,988	(4,067)	(3,656)	(411)
Nettuno	-	-	8,948	8,855	180	8,948	9,035	(87)
Total	**56,936**	**47,696**	**61,817**	**50,908**	**2,168**	**4,881**	**5,379**	**(498)**

Notes:

(1) Total capital expenditure represents the total costs expected to be incurred in relation to the construction of these solar power projects. At December 31, 2011 and 2010, this amount reflected all capitalized costs (included within property, plant and equipment and intangible assets), plus the capital commitment associated with the EPC contract of $45.6 million (€34 million) at December 31, 2010. No additional amounts are expected to be incurred in 2012 associated with these solar power projects that were both connected to the electricity grid in August 2011.

(2) Financing of $2.2 million was drawn in the first quarter of 2012.

(3) The total cost to construct the Helios ITA-3 solar power project was reduced in 2011 due to the accelerated reduction in the cost for solar modules enabling the Group to renegotiate the EPC contract at a reduced price, and, as a result, the Group entered into a new EPC contract with ABB. The Group entered into an EPC contract with Phoenix in June 2011 for the Nettuno solar power project.

(4) In August 2011, an amendment was made to the non-recourse project loan with Natixis, WestLB and Mediocreval, adjusting the financing to be obtained for the Helios ITA-3 solar power project and to include an additional tranche of financing for the construction of the Nettuno solar power project.

The changes that took place during 2011, to the Group's committed capital expenditure and associated financing positively impacted the Group's financial position by $0.5 million, of which $0.4 million related to the effect of foreign exchange movements (i.e., a change in the €/$ exchange rate of 1.34 at December 31, 2010 to 1.29 at December 31, 2011).

Borrowings

All of the Group's borrowings are denominated in Euros and the minimum principal repayment obligations are as follows:

	2011 $'000	2010 $'000
Less than 1 year	16,030	88,089
Between 1 and 5 years	152,722	39,758
After 5 years	238,103	221,110
Total borrowings	**406,855**	**348,957**

FINANCIAL POSITION (CONTINUED)

Liquidity and financing (continued)

Borrowings (continued)

The Group's adjusted net debt position, excluding non-cash items at December 31, 2011 and 2010 is as follows:

	2011 $'000	2010 $'000
Total borrowings (per consolidated financial statements)	**406,855**	**348,957**
Value added tax ("VAT") facilities(1)	(26,201)	(24,259)
Accrued interest(2)	(3,436)	(3,562)
Transaction costs(2)	11,586	11,049
Total borrowings (excluding non-cash items)	**388,804**	**332,185**
Cash and cash equivalents (including restricted cash)	(39,656)	(45,024)
Adjusted net debt	**349,148**	**287,161**

Notes:

(1) VAT facilities are excluded from total borrowings as these facilities are to be repaid using the proceeds from input VAT received from the Italian tax authorities.

(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.

At December 31, 2011, the Group was not in breach of any of the imposed operational and financial covenants associated with its non-recourse project loans and corporate borrowings.

Non-recourse project loans

The non-recourse project loans (i.e., facilities to which the lending bank is only entitled to the assets from the associated project) held by the Group's Italian subsidiaries, obtained to finance the construction of the Group's 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 2.75%. At December 31, 2011 and 2010, all non-recourse projects loans were hedged through interest rate swap contracts. Counterparties to the non-recourse project loans do not have unconditional or unilateral discretionary rights to accelerate repayment to earlier dates.

The following is a summary of the Group's non-recourse project loans denominated in Euros, translated at the closing €/$ exchange rate of 1.29 at December 31, 2011, and 1.34 at December 31, 2010:

				Balance outstanding(1)	
	Capacity (MW)	Financial institution	Maturity	2011 $'000	2010 $'000
Cassiopea	23.9	BIIS(2), Societe Generale and WestLB	March 31, 2024	142,638	152,030
Helios ITA-3(3)(4)	10	Natixis, WestLB and Mediocreval	June 30, 2027	44,525	-
Centauro	8.7	Barclays	September 30, 2028	52,402	55,227
Helios ITA	6.4	Societe Generale and Dexia	June 30, 2027	41,216	46,728
Etrion Lazio	5.2	Natixis, WestLB and Mediocreval	June 30, 2027	22,169	6,320
SVE	3.0	Centrobanca	June 30, 2028	16,374	13,428
Nettuno(3)(4)	2.6	Natixis, WestLB and Mediocreval	June 30, 2027	9,139	-
Total	**59.8**			**328,463**	**273,733**

Notes:

(1) Balances outstanding include the VAT facilities associated with the loans and accrued interest net of transaction costs. According to the facility agreements, the VAT facilities are to be repaid within forty-eight months from the amounts collected from the Italian tax authorities for input VAT on the Group's construction activities.

(2) Banca Infrastrutture Innovazione e Sviluppo (Intesa Sanpaolo Group).

(3) On August 5, 2011, the Group closed an additional tranche of project financing to include the 2.6 MW Nettuno solar power project within the non-recourse project loan facility from Natixis, WestLB and Mediocreval.

(4) At December 31, 2011, the Group had $2.2 million (€1.7 million) undrawn on the facility with Natixis, WestLB and Mediocreval relating to the Helios ITA-3 and Nettuno solar power projects. These amounts were drawn in the first quarter of 2012.

FINANCIAL POSITION (CONTINUED)

Liquidity and financing (continued)

Borrowings (continued)

Non-recourse project loans (continued)

In order to secure the Group's non-recourse project loans, the Group pledged as collateral the fixed assets (i.e., solar power projects and land) associated with the solar power projects financed by these facilities (i.e., Cassiopea, Helios ITA-3, Centauro, Helios ITA, Etrion Lazio, SVE and Nettuno). The value of the Group's fixed assets held as collateral at December 31, 2011 was $364.0 million (2010: $334 million). Repayment of these facilities is secured principally by the proceeds from the sale of electricity under contracts entered into by the Group with GSE and local utilities (Enel S.p.A. and Terna S.p.A.) and the proceeds from the collection of input VAT accumulated for construction costs.

Corporate borrowings

Lundin Services BV loan

In April 2010, the Company entered into a loan facility agreement with Lundin Services BV, a wholly-owned subsidiary of Lundin Petroleum AB, for up to $77.4 million (€60.0 million) in order to finance capital and operating expenditures of the Group. The loan carried an annual interest rate of Euribor plus a margin of 3% until March 31, 2011, with a margin of 5% thereafter. In May 2011, the net proceeds from the Company's bond issue were used to repay the loan facility in full. Refer to "Corporate bond" below.

Corporate bond

In April 2011, the Company issued $77.4 million (€60.0 million) of corporate bonds in the Norwegian bond market at 9% annual interest with a 4-year maturity. At December 31, 2011, the amount outstanding, including accrued interest and net of transaction costs was $78.4 million (December 31, 2010: $nil). Refer to "Lundin Services BV loan" above.

The corporate bond agreement includes a call option that allows the Company to redeem the bond early (in full or in part), after the first, second and third year at a specified percentage over par value (i.e., a fixed premium) of 5%, 3% and 1%, respectively. At December 31, 2011, no amount was recognized in relation to this option. In addition, the corporate bond has a minimum unrestricted cash balance requirement of €3 million.

Lundin family bridge loan

In order to accelerate construction of the Helios ITA-3 and Nettuno solar power projects, in June 2011, the Company received a $36.1 million (€28 million) bridge loan from investment companies associated with the Lundin family that matured in June 2012. In consideration for the bridge loan, the Company issued 6,500,000 common shares to investment companies associated with the Lundin family. Refer to "Related Party Transactions" on page 26.

In November 2011, the Company repaid the bridge loan primarily using proceeds from the non-recourse loan facility with Natixis, WestLB and Mediocreval for the Helios ITA-3 and Nettuno solar power projects.

Going concern

The Company's consolidated financial statements for the year ended December 31, 2011, 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, 2011, the Group had cash and cash equivalents of $39.7 million (December 31, 2010: $45 million) and positive working capital (i.e., current assets less current liabilities) of $20.1 million (December 31, 2010: negative $73.3 million). During the year ended December 31, 2011, the Group incurred a net loss before and after non-recurring items of $26.3 million (2010: net loss $18.1 million) and $15.6 million (2010: $10.8 million), respectively. 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 this MD&A.

FINANCIAL POSITION (CONTINUED)

Going concern (continued)

The Group's anticipated growth and development activities will depend on the Group's ability to secure additional financing (i.e., corporate debt and equity financing, vendor 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 expenditures.

The Company's consolidated financial statements for the year ended December 31, 2011 do not include the adjustments that would result if the Group was unable to continue as a going concern.

Outstanding share data

At the date of this MD&A, the Company had 187,536,120 common shares (March 8, 2010: 180,706,120) and 5,014,200 options (March 8, 2010: 7,497,200) to purchase common shares issued and outstanding.

During the year ended December 31, 2011, the Company issued 6,500,000 common shares to investment companies associated with the Lundin family as an equity-based financing fee (refer to "Lundin family bridge loan" on page 21) and issued 1,270,000 common shares as a result of stock options being exercised during the year.

In addition, Mr. Northland has the right until September 11, 2014 to exchange his 10% equity interest in the Company's subsidiary, SRH, for an equivalent value of shares in Etrion. However, shortly following the publication of the Company's year-end financial results, it is expected that Mr. Northland will exercise his right to exchange his 10% equity interest in the Company's subsidiary, SRH, for an equivalent value of shares in Etrion. As a result of this exchange, approximately 18.2 million shares of the Company are expected to be issued to Mr. Northland and the Company will own 100% of SRH. Refer to "Related Party Transactions" on page 27.

The stock options outstanding expire at various dates between August 12, 2013, and April 28, 2018, with exercise prices in Canadian dollars ("CAD$") ranging between CAD$0.25 and CAD$1.59 per share.

Off-balance sheet arrangements

The Group had no off-balance sheet arrangements in 2011 and 2010.

PRIMARY AND SECONDARY LISTING

Etrion's shares trade on the TSX and NASDAQ OMX under the same ticker symbol, "ETX". The Company's shares trade on the TSX in CAD$ and on the NASDAQ OMX in Swedish krona.

Primary listing (TSX)

The Company's primary listing is on the TSX. In February 2010, the TSX announced a review of Etrion's listing status as a result of the Company's change of business focus from oil and gas to renewable energy. The TSX no longer considered the Company to be an oil and gas company and required it to demonstrate compliance with the TSX original listing requirements for an industrial issuer. The TSX review arose in connection with the Company's proposed application for a secondary listing on NASDAQ OMX.

In May 2010, the TSX conditionally approved the listing of the Company's common shares in the industrial category subject to certain conditions, including the completion of an equity financing resulting in net proceeds to the Company of at least $15 million. The Company completed the required financing on August 23, 2010, and satisfied the remaining listing conditions.

PRIMARY AND SECONDARY LISTING (CONTINUED)

Secondary listing (NASDAQ OMX)

In November 2010, the Company obtained a secondary listing on the NASDAQ OMX. At the same time, Lundin Petroleum BV, Etrion's former major shareholder, distributed its 40% ownership in Etrion to Lundin Petroleum shareholders. As a result of the distribution, the Group's largest shareholder became the Lundin family, held through various trusts, which collectively own approximately 25% of the Company's share capital.

The secondary listing in Stockholm and the distribution of Lundin Petroleum BV's ownership in Etrion significantly expanded the Company's shareholder base and increased its visibility among European investors. The Company's management believes that the NASDAQ OMX listing has enhanced the trading liquidity of the Company's shares and improved the Company's access to the European capital markets.

CAPITAL INVESTMENTS

The Group is evaluating opportunities to make significant capital investments in the future in order to acquire and/or build ground-mounted solar PV power plants. Etrion plans to finance the acquisition and construction of its projects under development with a combination of cash and cash equivalents, additional corporate debt or equity financing, vendor financing and non-recourse project loans, as required. There is no assurance that debt or equity financing will be available or sufficient to meet these requirements or, if debt or equity financing is available, that it will be available on terms acceptable to the Group. For those projects with financing already secured through non-recourse project loans, no additional capital contributions are expected.

At December 31, 2011, the Group had no committed capital expenditure outstanding. At December 31, 2010, the Group had $6.8 million of committed capital expenditure outstanding related to the Helios ITA-3 solar power project (which represented the expected remaining equity contribution at December 31, 2010 to be paid in 2011 associated with the EPC contract). Refer to "Liquidity and financing" on page 19 for a summary of the Group's committed capital expenditure and financing at December 31, 2011 and 2010.

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. 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 critical accounting policies outlined on pages 24 and 25 affect the more significant judgments and estimates used in the preparation of the consolidated financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

IMPAIRMENT OF GOODWILL

The Group assesses goodwill for impairment on an annual basis. Determining whether goodwill is impaired requires the Company's management to estimate the recoverable amount of the cash generating units ("CGUs") to which goodwill has been allocated using value-in-use calculations. The value-in-use calculations require the Company's management to estimate the future cash flows expected to arise from the CGUs and to select a suitable discount rate in order to calculate the present value. The value-in-use calculations are based on the forecasted EBITDA over the expected life (i.e., up to 20 years, representing the term of the electricity sale agreements) 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 fixed 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 area where the projects are located. For the purposes of the Group's impairment assessment performed at December 31, 2011, the discount rate used was 8.1% (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). A 2% increase to the Group's discount rate (to 10.1%) would not have resulted in an impairment loss being recognized during the year ended December 31, 2011. 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, 2011, no impairment was provided in relation to the Group's previously recognized goodwill.

ACQUISITIONS

The acquisition of subsidiaries is accounted for using the acquisition method of accounting in accordance with *IFRS 3, Business Combinations*, which requires measuring the assets acquired and liabilities assumed at their fair values at the date of acquisition. The Company's management estimates the fair value of the assets acquired and liabilities assumed using business models developed by the Company's management used to value the solar power projects which include a wide number of operating and financial variables and assumptions that are subject to change as economic and market conditions vary (refer to "Impairment of Goodwill" above). These changes could affect the fair value of the assets acquired and liabilities assumed and the amount of goodwill or negative goodwill recognized in the financial statements. During the year ended December 31, 2011, the Group adjusted the fair values assigned to the assets and liabilities on the acquisition of the Cassiopea and Centauro solar power projects that occurred in 2010, resulting in a reduction of $0.4 million to property, plant and equipment, $0.1 million to goodwill included within intangible assets and $0.1 million to deferred income tax liabilities.

NON-CONTROLLING INTERESTS

The Group's solar power projects are held through its 90%-owned subsidiary, SRH. The remaining 10% equity interest is held by Mr. Northland. The non-controlling interest is recognized as a financial liability which is measured as the higher between Mr. Northland's participation in SRH's net assets and the Company's minimum commitment of €4.0 million (i.e., guaranteed floor to be settled in cash if certain conditions are met). If Mr. Northland's 10% participation in the net equity of SRH surpasses the €4.0 million guaranteed floor, the excess will be recognized and disclosed as a non-controlling interest. At December 31, 2011, the Group recognized a financial liability of $5.2 million (2010: $5.3 million) associated with this arrangement.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

FAIR VALUE OF FINANCIAL AND DERIVATIVE FINANCIAL INSTRUMENTS

In determining the fair value of the Group's financial instruments, the Company's management uses judgement 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. For financial instruments carried at amortized cost, with a stated maturity, for which a quoted market price is not available, the estimated fair value is based on the expected future cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of floating rate instruments normally approximates their carrying value. At December 31, 2011, the Group recognized financial liabilities of $30.7 million (2010: $13.6 million) associated with its derivative financial instruments.

DEFERRED INCOME TAX ASSETS

The Group accounts for differences that arise between the carrying amount of assets and liabilities and their tax bases in accordance with *IAS 12, Income Taxes*, which requires deferred income tax assets only to be recognized to the extent that is probable that future taxable profits will be available against which the temporary differences can be utilized. The Company's management estimates future taxable profits based on the 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, 2011, the Group recognized $3.7 million (2010: $nil) of deferred income tax assets.

PENSION OBLIGATIONS

In order to determine the value of the Group's pension obligations and related plan assets associated with its Swiss pension plan, the Group relies on information provided from Swiss Life Pensions Services AG, an accredited pension actuary in Switzerland. The valuations are based on a series of assumptions regarding future developments including demographic (i.e., mortality rates, disability rates, turnover rates and early retirement age) and economic assumptions (i.e., discount rate, price inflation, rate of expected return on plan assets and salary and pension increases). These assumptions could change over time and could have a significant impact on the net liability position recognized by the Group. At December 31, 2011, the Group recognized a net liability of $1.0 million (2010: $nil) associated with its Swiss pension plan.

SHARE-BASED PAYMENTS

The Group maintains an equity-settled, share-based compensation plan, under which the entity receives services from employees, consultants, directors and officers as consideration for equity instruments of the Group. In accordance with *IFRS 2, Share-based Payments*, the fair value of the share-based compensation is calculated using the Black-Scholes option-pricing model, which requires the Company's management to estimate the expected volatility of the grant, the risk-free interest rate and the dividend yield. The risk free interest rate is based on the information issued by the Central Bank of Canada (which represents the interest rate on bonds with a due date similar to the life of the option), the expected volatility is estimated based on the historic volatility of the stock for a period similar to the vesting period of the grants and the dividend yield rate is based on the annual dividends per share divided by the price per share. These variables are subject to change together with market and economic conditions, which may have a significant impact on the fair value of the stock options at the grant date to which the share-based payment expense, amortized over the vesting period, is based. During the year ended December 31, 2011, the Group recognized an expense of $1.1 million (2010: $5.6 million) related to share-based payments.

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 as defined by *IAS 24, Related Party Disclosures*. The Company's major shareholder is the Lundin family, held through various trusts, which collectively own approximately 25% of the Company's share capital. Prior to November 2010, when the Company obtained a secondary listing on the NASDAQ OMX, the largest shareholder of the Company was Lundin Petroleum BV, which held approximately 40% of the outstanding shares of the Company.

All related party transactions are made on terms equivalent to those made on an arm's length basis.

The related party transactions disclosed in the notes to the Company's consolidated financial statements for the year ended December 31, 2011 are summarized below and on page 27.

RELATED PARTY TRANSACTIONS

Lundin Services BV

The Group receives professional services (i.e., technical and legal) from Lundin Services BV, a wholly-owned subsidiary of Lundin Petroleum AB. The Chief Executive Officer of Lundin Petroleum AB is a Director of the Company. During the year ended December 31, 2011, the Group incurred general and administrative expenses of $48,000 (2010: $85,000) from Lundin Services BV and at December 31, 2011, had $3,000 (2010: $32,000) outstanding related to these expenses.

In addition, in April 2010, the Company entered into a loan agreement with Lundin Services BV to draw up to $77.4 million (€60.0 million). This loan was fully repaid in May 2011. During the year ended December 31, 2011, the Group recognized $1.5 million (2010: $1.6 million) of interest expense and $0.1 million (2010: $0.3 million) of transaction costs associated with this loan.

In April 2011, Lundin Services BV subscribed for $11.5 million (€8.9 million) of the corporate bonds issued by the Company that bear an annual interest rate of 9%. In April and May of 2011, Lundin Services BV sold $1.7 million (€1.3 million) of the corporate bonds, reducing their position to $9.8 million (€7.6 million) at December 31, 2011. During the year ended December 31, 2011, the Group recognized $0.7 million (2010: $nil) of interest expense and $15,000 (2010: $nil) of transaction costs associated with the portion of the corporate bonds held by Lundin Services BV.

Lundin Petroleum SA

The Group receives professional services (i.e., administrative support) from Lundin Petroleum SA, a wholly-owned subsidiary of Lundin Petroleum AB. During the year ended December 31, 2011, the Group incurred general and administrative expenses of $37,000 (2010: $94,000) from Lundin Petroleum SA and at December 31, 2011, had no amounts outstanding related to these expenses (2010: $6,000).

Lundin family

In order to accelerate construction of the Helios ITA-3 and Nettuno solar power projects, in June 2011, the Company obtained a $36.1 million (€28.0 million) bridge loan from investment companies associated with the Lundin family that matured in June 2012. In consideration for the bridge loan, the Company issued 6,500,000 common shares of the Company to investment companies associated with the Lundin family. The fair value of the shares issued of $5.3 million was accounted for as prepaid interest and an early redemption fee amortized over the life of the bridge loan. In November 2011, the bridge loan was fully repaid. During the year ended December 31, 2011, $5.3 million (2010: $nil) was expensed within finance costs as interest expense and an early redemption fee of which $2.1 million (2010: $nil) was capitalized within property, plant and equipment, up to the date the solar power projects were connected to the electricity grid.

In addition, in April 2011, investment companies associated with the Lundin family subscribed for $19.2 million (€15.0 million) of the corporate bonds issued by the Company that bear an annual interest rate of 9%. During the year ended December 31, 2011, the Group recognized $1.3 million (2010: $nil) of interest expense and $30,000 (2010: $nil) of transaction costs associated with the portion of the corporate bonds held by investment companies associated with the Lundin family.

RELATED PARTIES (CONTINUED)

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.

Upon the acquisition of SRH in September 2009, the Company entered into a shareholders' agreement with Mr. Northland, who holds the remaining 10% equity interest in SRH (the "Agreement"). The Agreement provides Mr. Northland with the right to exchange his 10% equity interest in SRH for an equivalent fair value of shares in the Company. During the year ended December 31, 2011, the Group recognized a share-based payment expense of $0.4 million (2010: $4.8 million) and at December 31, 2011, the Group recognized a financial liability of $5.3 million (2010: $5.2 million) associated with this arrangement. However, shortly following the publication of the Company's year-end financial results, it is expected that Mr. Northland will exercise his right to exchange his 10% equity interest in the Company's subsidiary, SRH, for an equivalent value of shares in Etrion. As a result of this exchange, approximately 18.2 million shares of the Company are expected to be issued to Mr. Northland and the Company will own 100% of SRH.

In addition, during the year ended December 31, 2011, the Group recognized $1.8 million (2010: $2.5 million) within general and administrative expenses associated with the remuneration of key management personnel, related to salaries and benefits of $1.1 million (2010: $1.4 million), pension costs of $0.2 million (2010: $0.1 million), fees paid to the Board of Directors of $0.2 million (2010: $0.2 million) and share-based payment expenses of $0.3 million (2010: $0.4 million). During the year ended December 31, 2010, the Group also recognized termination benefits $0.4 million paid to a former director of the Company. At December 31, 2011, the Group had $0.3 million outstanding to key management personnel, related to 2011 bonus compensation of $0.2 million (2010: $0.7 million) and fees payable to the Board of Directors of $0.1 million (2010: $0.1 million).

FINANCIAL INSTRUMENTS

FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial risks relating to its operations in Italy. These risks include market risk (including currency risk, cash flow interest rate 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 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 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.

Refer to the notes to the Company's consolidated financial statements for the year ended December 31, 2011, for further details in relation to the Group's financial risk management.

FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL RISK MANAGEMENT (CONTINUED)

The following is a summary of the Group's derivative financial instruments at December 31, 2011 and 2010:

	2011 $'000	2010 $'000
Derivative financial assets:		
Interest rate swap contracts (cash flow hedges)		
- Non-current portion	-	1,247
Total derivative financial assets	**-**	**1,247**
Derivative financial liabilities:		
Interest rate swap contracts (cash flow hedge)		
- Current portion	5,462	3,217
- Non-current portion	25,213	6,764
Interest rate swap contracts (fair value through profit or loss)		
- Current portion	-	1,590
- Non-current portion	-	2,066
Total derivative financial liabilities	**30,675**	**13,637**

The Group has entered into five credit facilities that are hedged using interest rate swap contracts in order to hedge the risk of variations in the Group's cash flows as a result of floating interest rates on the Group's non-recourse project loans.

DERIVATIVE FINANCIAL INSTRUMENTS

At December 31, 2011, the notional amount of the Group's interest rate swap contracts was $307.3 million (2010: $308.0 million). All interest rate swap contracts are denominated in Euros. The fair market value of the instruments at December 31, 2011, resulted in a net liability position of $30.7 million (2010: $12.4 million) due to a lower Euribor forecasted curve in comparison with projections in the interest rate swap contracts.

The fair value of these interest rate swap contracts is 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 interest rate forward yield curve and an appropriate discount factor.

Interest rate swap contracts classified as cash flow hedges

At December 31, 2011, all of the Group's derivative financial instruments were classified as cash flow hedges, qualifying for hedge accounting (Cassiopea, Helios ITA-3, Centauro, Helios ITA, Etrion Lazio, SVE and Nettuno), in accordance with *IAS 39, Financial Instruments: Recognition and Measurement* ("IAS 39"). In the prior year, the Group had three derivative financial instruments that qualified for hedge accounting (Cassiopea, Centauro and Etrion Lazio). As a result, any gain or loss associated with changes to the fair value of these financial instruments is recognized within other comprehensive income. If any portion of the hedge is ineffective, this portion is transferred from the hedging reserve in equity to the profit or loss within finance income/costs.

During the year ended December 31, 2011, the Group recognized a fair value loss of $0.6 million (2010: gain of $0.6 million) related to the ineffective portion of two cash flow hedges reclassified from other comprehensive income (Cassiopea, Helios ITA-3, Etrion Lazio, SVE and Nettuno). In addition, a fair value loss of $13.3 million (2010: gain of $3.0 million), net of tax and after the reclassification of the ineffective portion, was recognized in other comprehensive income, related to the effective portion of the Group's interest rate swap contracts (Cassiopea, Helios ITA-3, Centauro, Helios ITA, Etrion Lazio, SVE and Nettuno).

FINANCIAL INSTRUMENTS (CONTINUED)

DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate swap contracts classified as fair value through profit or loss

At December 31, 2011, the Group had no derivative financial instruments classified as fair value through profit or loss. In the prior year, the Group had two derivative financial instruments classified as fair value through profit or loss (Helios ITA and SVE) as the criteria for hedge accounting, as outlined in IAS 39, was not met. As a result, any gain or loss associated with changes to the fair value of these financial instruments was recognized in the consolidated statement of comprehensive income within finance income/costs.

During the year ended December 31, 2011, the Group recognized a fair value gain of $1.1 million (2010: $4.8 million) associated with two interest rate swap contracts (Helios ITA and SVE) before they were re-designated for hedge accounting during the year. In addition, during the year ended December 31, 2011, the Group recognized a fair value loss of $0.7 million (2010: $0.7 million) associated with two interest rate swap contracts (Helios ITA-3 and Nettuno) before they were designated for hedge accounting during the year.

RISKS AND UNCERTAINTIES

The Group's activities expose it to a variety of financial and non-financial risks and uncertainties that could have a material impact on the Group's long-term performance and could cause actual results to differ materially from expected and historical results. Risk management is carried out by the Company's management with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also oversees and provides assistance with the overall risk management strategy and mitigation plan of the Group.

FINANCIAL RISKS

Debt and equity financing

The Group's anticipated growth and development activities will depend on the Group's ability to secure additional financing (i.e., corporate debt, equity financing, vendor 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 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 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, price risk and credit risk. The Company's management seeks to minimize the effects of these risks 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 Company will be able to obtain all necessary licenses and permits required to develop future renewable energy projects. At the date of this report, to the best of the Company's knowledge, all necessary licenses and permits have been obtained, 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 or 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 to continue operating in current markets. Specifically, reductions to the FiT could impact the profitability of the Group's future solar power projects. Refer to "Market Overview" on pages 10 and 11.

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. 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.

Prices and markets for electricity

Although the Group focuses on acquiring, developing, building, owning and operating renewable energy projects in jurisdictions that provide a long-term FiT, a portion of the Company's revenues is derived from the spot market rate for electricity. Pricing for the sale of electricity may be subject to change based on economical and political conditions.

International operations

Etrion acquires, develops, builds, owns and operates renewable energy projects, with a current focus in Italy. 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 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 litigations 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 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.

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 Chief Executive Officer and Chief Financial Officer are required to carry out an evaluation of the following:

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

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Forward-looking information and statements are included throughout this MD&A and include, but are not limited to, statements with respect to: Etrion's plans for future growth and development activities, expectations relating to cash flow in 2012 and 2013, the need for additional capital to fund the construction or acquisition of new projects and the expected sources of such capital and expectations relating to grid parity. The above constitute forward-looking information, within the meaning of applicable Canadian securities legislation, which involves risks, uncertainties and assumptions, including, without limitation: risks associated with operating exclusively in foreign jurisdictions; uncertainties with respect to the availability of suitable additional renewable energy projects; uncertainties and assumptions relating to the availability and costs of financing needed in the future; assumptions related to the applicability of the Italian FiT regime until December 31, 2016; 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 Company operates; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; stock market volatility; opportunities available to or pursued by the Company; and other factors, many of which are beyond the Company'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. The foregoing factors, assumptions and risks are not exhaustive and are further discussed in Etrion's most recent Annual Information Form and other public disclosure available on SEDAR at www.sedar.com. Actual results, performance or achievements could differ materially from those expressed in, or implied by, such forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits will be derived therefrom. Investors should not place undue reliance on forward-looking information. Except as required by law, Etrion does not intend to update or revise any forward-looking information, whether as a result of new information, future events or otherwise. The information contained in this MD&A is expressly qualified by this cautionary statement.

ADDITIONAL INFORMATION

Additional information regarding the Company, including its Annual Information Form, may be found on the SEDAR website at **www.sedar.com** or by visiting the Company's website at **www.etrion.com**.

etrion

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2011

CONTENTS

March 29, 2012

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, 2011 and 2010 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and 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 (IFRS) 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 audit. We conducted our audit 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 is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Etrion Corporation as at December 31, 2011 and 2010 and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers SA

(signed) "Luc Schulthess"	(signed) "Marion Grandjean"
Luc Schulthess	Marion Grandjean

Enclosures:
- Consolidated financial statements (statement of comprehensive income, balance sheet, statement of changes in equity, statements of cash flows, notes).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2011

Expressed in US$

	Note	2011 $'000	2010 $'000
Revenue	5	51,910	11,565
Operating expenses	6	(20,772)	(6,501)
Gross profit		**31,138**	**5,064**
General and administrative expenses	7	(15,143)	(19,113)
Impairment	8	(9,672)	-
Other income/expenses	9	3,187	-
Operating profit/(loss)		**9,510**	**(14,049)**
Finance income	10	1,805	5,461
Finance costs	10	(32,096)	(10,120)
Net finance costs		**(30,291)**	**(4,659)**
Loss before income tax		**(20,781)**	**(18,708)**
Income tax (expense)/recovery	11	(5,508)	587
Loss for the year		**(26,289)**	**(18,121)**
Other comprehensive (loss)/income:			
Gain on currency translation	21	1, 153	33
(Loss)/gain on cash flow hedges (net of tax)	21	(13,323)	3,040
Actuarial loss on post employment benefits	26	(1,011)	-
Total other comprehensive (loss)/income		**(13,181)**	**3,073**
Total comprehensive loss for the year		**(39,470)**	**(15,048)**
Loss for the year attributable to:			
Owners of the parent company		(26,289)	(18,121)
Total comprehensive loss for attributable to:			
Owners of the parent company		(39,470)	(15,048)
Basic and diluted loss per share	12	**$(0.14)**	**$(0.11)**

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

CONSOLIDATED BALANCE SHEET

As at December 31, 2011

Expressed in US$

	Note	2011 $'000	2010 $'000
Assets			
Non-current assets			
Property, plant and equipment	14	364,109	341,225
Intangible assets	15	13,669	14,785
Available for sale investments	16	2,061	10,401
Deferred income tax assets	11	3,683	-
Derivative financial instruments	24	-	1,247
Trade and other receivables	17	24,622	20,175
Total non-current assets		**408,144**	**387,833**
Current assets			
Trade and other receivables	17	19,776	13,359
Cash and cash equivalents (including restricted cash)	18	39,656	45,024
Total current assets		**59,432**	**58,383**
Total assets		**467,576**	**446,216**
Equity			
Attributable to owners of the Company			
Share capital	19	23,293	16,741
Contributed surplus		15,998	15,295
Other reserves	21	(9,429)	2,741
Accumulated deficit		(27,300)	-
Total equity		**2,562**	**34,777**
Liabilities			
Non-current liabilities			
Borrowings	22	390,825	260,868
Derivative financial instruments	24	25,213	8,830
Deferred income tax liabilities	11	4,038	8,762
Provisions and other liabilities	25	5,620	1,285
Total non-current liabilities		**425,696**	**279,745**
Current liabilities			
Trade and other payables	27	12,791	35,931
Current income tax liabilities	11	4,165	1,997
Borrowings	22	16,030	88,089
Derivative financial instruments	24	5,462	4,807
Provisions and other liabilities	25	870	870
Total current liabilities		**39,318**	**131,694**
Total liabilities		**465,014**	**411,439**
Total equity and liabilities		**467,576**	**446,216**

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

Approved by the Board of Directors:

(signed) "Marco A. Northland"

Marco A. Northland, CEO and Director

(signed) "C. Ashley Heppenstall"

C. Ashley Heppenstall, Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2011

Expressed in US$

		Attributable to owners of the parent company						
	Note	Share capital $'000	Contributed surplus $'000	Other reserves $'000	Accumulated deficit $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at January 1, 2010		**107,557**	**10,341**	**(375)**	**(87,889)**	**29,634**	**-**	**29,634**
Comprehensive income/(loss):								
- Loss for the year		-	-	-	(18,121)	(18,121)	-	(18,121)
- Other comprehensive income:								
Cash flow hedges (net of tax)		-	-	3,040	-	3,040	-	3,040
Currency translation		-	-	33	-	33	-	33
Total comprehensive income/(loss)		-	-	3,073	(18,121)	(15,048)	-	(15,048)
Transactions with owners in their capacity as owners:								
- Private placement		15,050	-	-	-	15,050	-	15,050
- Share capital reduction		(106,010)	-	-	106,010	-	-	-
- Non-controlling interests on acquisition		-	-	-	-	-	225	225
- Acquisition of non-controlling interests		-	-	43	-	43	(225)	(182)
- Tax effect of expiration of warrants		-	(263)	-	-	(263)	-	(263)
- Stock options exercised		144	(55)	-	-	89	-	89
- Share-based payments		-	5,711	-	-	5,711	-	5,711
- Settlement of share-based payments		-	(439)	-	-	(439)	-	(439)
Balance at December 31, 2010		**16,741**	**15,295**	**2,741**	**-**	**34,777**	**-**	**34,777**
Comprehensive loss:								
- Loss for the year		-	-	-	(26,289)	(26,289)	-	(26,289)
- Other comprehensive loss:								
Cash flow hedges (net of tax)	21	-	-	(13,323)	-	(13,323)	-	(13,323)
Currency translation	21	-	-	1,153	-	1,153	-	1,153
Actuarial loss on post employment benefit obligations	26	-	-	-	(1,011)	(1,011)	-	(1,011)
Total comprehensive loss		-	-	(12,170)	(27,300)	(39,470)	-	(39,470)
Transactions with owners in their capacity as owners:								
- Equity-based financing fee	19	5,596	-	-	-	5,596	-	5,596
- Stock options exercised	19	956	(396)	-	-	560	-	560
- Share-based payments	20	-	1,099	-	-	1,099	-	1,099
Balance at December 31, 2011		**23,293**	**15,998**	**(9,429)**	**(27,300)**	**2,562**	**-**	**2,562**

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

CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended December 31, 2011

Expressed in US$

	Note	2011 $'000	2010 $'000
Cash flow from operating activities:			
Loss for the year		**(26,289)**	**(18,121)**
Adjustments for:			
Depreciation and amortization	6/7	18,992	5,990
Impairment	8	9,672	-
Current income tax expense	11	7,257	429
Deferred income tax recovery	11	(1,749)	(1,016)
Disposal of fixed assets		-	35
Share-based payment expense	7/20	1,105	5,644
Interest income		(262)	(53)
Interest expense	10	18,707	4,937
Interest expense relating to interest rate swap contracts	10	6,216	3,337
Amortization of transaction costs	10	887	531
Equity-based financing fee	10/30	3,246	-
Foreign exchange loss	10	391	298
Changes in fair values of derivative financial instruments	10	239	(4,707)
(Increase)/decrease in trade and other receivables		(13,010)	4,716
Decrease in trade and other payables		(22,621)	(1,167)
Income tax paid	11	(4,934)	-
Total cash flow (used in)/from operating activities		**(2,153)**	**853**
Cash flow from investing activities:			
Purchases of property, plant and equipment	14	(52,665)	(22,495)
Purchases of intangible assets	15	(750)	(2,311)
Acquisition of subsidiaries, net of cash acquired		-	(42,453)
Acquisition of assets		-	(9,096)
Purchase of investments		-	(368)
Acquisition of non-controlling interests		-	(181)
Total cash flow used in investing activities		**(53,415)**	**(76,904)**
Cash flow from financing activities:			
Interest paid	22	(18,493)	(4,009)
Interest paid relating to interest rate swap arrangements		(6,934)	(3,336)
Interest received		263	53
Repayment of borrowings	22	(131,307)	(20,501)
Proceeds from borrowings	22	207,254	111,219
Private placement	19	-	15,051
Proceeds from the issuance of shares	19/20	560	144
Settlement of share-based payments		-	(439)
Total cash flow from financing activities		**51,343**	**98,182**
Net (decrease)/increase in cash and cash equivalents		**(4,225)**	**22,131**
Effect of exchange rate differences		(1,143)	(555)
Cash and cash equivalents (including restricted cash) at the beginning of the year		45,024	23,448
Cash and cash equivalents (including restricted cash) at the end of the year		**39,656**	**45,024**

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

1. General information

Etrion is incorporated under the laws of the Province of British Columbia, Canada. The address of its registered office is 1600-925 West Georgia St, Vancouver, British Columbia, V62 3L2, Canada. The Company is listed on the TSX and the NASDAQ OMX under the same ticker symbol, "ETX".

The Company is an independent power producer focused on acquiring, developing, building, owning and operating solar power plants.

The Company's solar power projects are held through its 90%-owned subsidiary, SRH, and the remaining 10% equity interest of SRH is held by Mr. Northland, the Chief Executive Officer and Director of the Company.

These consolidated financial statements are presented in United States dollars. However, since the functional currency of the Company (i.e., the primary economic environment in which the Company operates) is the Euro and the Company's primary listing is in Canada, certain financial information within the notes to these consolidated financial statements has been presented in Euro and Canadian dollars.

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 years presented, unless otherwise stated.

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with 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, 2011. The consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets and financial liabilities (i.e., available for sale investments and 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.

The Company's Board of Directors approved these audited annual consolidated financial statements for issue on March 29, 2012.

(b) Going Concern

These consolidated financial statements for the year ended December 31, 2011, 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, 2011, the Group had cash and cash equivalents of $39.7 million (December 31, 2010: $45 million) and positive working capital (i.e., current assets less current liabilities) of $20.1 million (December 31, 2010: negative $73.3 million). During the year ended December 31, 2011, the Group incurred a net loss before and after non-recurring items of $26.3 million (2010: net loss $18.1 million) and $15.6 million (2010: $10.8 million), respectively. 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.

2. Summary of significant accounting policies (continued)

(b) Going Concern (continued)

The Group's anticipated growth and development activities will depend on the Group's ability to secure additional financing (i.e., corporate debt and equity financing, vendor 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 expenditures.

These consolidated financial statements for the year ended December 31, 2011, do not include the adjustments that would result if the Group was unable to continue as a going concern.

(c) Changes in accounting policies and disclosures

The Group has adopted the following amendments to standards and interpretations applicable for financial periods beginning on or after January 1, 2011:

- *IAS 24 (revised), Related Party Disclosures ("IAS 24"):* The revised standard clarifies and simplifies the definition of a related party and modifies certain related party disclosures. The adoption of IAS 24 has not had a significant impact on the Group's disclosures of transactions with related parties.
- *Annual Improvements 2010*: The annual improvements made in 2010 have not had a significant impact on the Company's consolidated annual financial statements.

The following new standards, amendments and interpretations, applicable to the Group, issued but not effective for the financial year beginning January 1, 2011 and not early adopted are as follows:

- *Amendment to IAS 1, Finance Statement Presentation:* This amendment requires items presented in other comprehensive income to be grouped on the basis of whether they can potentially be subsequently reclassified to profit or loss (i.e., reclassification adjustments).
- *IFRS 9, Financial Instruments ("IFRS 9"):* This standard addresses the classification, measurement and recognition of financial assets and liabilities, replacing parts of IAS 39. The Group is 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, 2015.
- *IFRS 10, Consolidated Financial Statements ("IFRS 10"):* This standard builds on the existing principals by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The Group is yet to assess the full impact of IFRS 10 and intends to adopt IFRS 10 no later than the accounting period beginning on or after January 1, 2013.
- *IFRS 13, Fair Value Measurement ("IFRS 13"):* This standard aims to improve consistency and reduce complexity by providing precise definitions of fair value, a single source of fair value measurement and disclosure requirements for use across all IFRS. IFRS 13 does not extend the use of fair value accounting, but provides guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The Group is yet to assess the full impact of IFRS 13 and intends to adopt IFRS 13 no later than the accounting period beginning on or after January 1, 2013.
- *IAS 19 (revised), Employee Benefits ("IAS 19"):* The revised standard clarifies what is included in annual costs for defined benefit plans, requires actuarial gains and losses to be recognized immediately in comprehensive income and requires additional disclosures regarding the characteristics of the entity's benefit plans, amounts recognized in the financial statements, impacts on future cash flows and risks arising from the defined benefit plan. The Group is yet to assess the full impact of IAS 19 and intends to adopt IAS 19 no later than the accounting period beginning on or after January 1, 2013.

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

2. Summary of significant accounting policies (continued)

(d) Basis of consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and they are de-consolidated 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.

The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interests' proportionate share of the acquiree's identifiable net assets. Subsequently, the carrying value of any non-controlling interest is adjusted to reflect the non-controlling interests' share of any subsequent changes in the net assets of the acquiree. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit position.

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.

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 that 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.

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.

2. Summary of significant accounting policies (continued)

(d) Basis of consolidation (continued)

Subsidiaries (continued)

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 re-measured, 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 for which 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 (i.e., functional currency). The functional currency of the Company's subsidiaries is primarily the Euro.

The consolidated financial statements are presented in United States dollars, which is the Group's presentation currency.

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 re-measured. 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.

Expressed in US$ unless otherwise stated

2. Summary of significant accounting policies (continued)

(f) Foreign currency translation (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 average exchange rates prevailing during the year; 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 equity.

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, the amounts recognized in other comprehensive income are reclassified from equity to profit or loss.

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 United States dollar.

The exchange rates for the relevant currencies of the Group with respect to the United States dollar were as follows:

	CHF[(1)]/$	€/$	Bs[(1)]/$	CAD$/$
Closing rate at December 31, 2011	1.06	1.29	0.19	0.98
Closing rate at December 31, 2010	1.03	1.34	0.19	1.01
Closing rate at December 31, 2009	0.95	1.44	0.16	0.95
Twelve month average rate December 31, 2011	1.13	1.39	0.19	1.01
Twelve month average rate December 31, 2010	0.96	1.32	0.17	0.96

Notes:

(1) CHF refers to Swiss francs and Bs refers to Venezuelan bolivars.

(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 its working condition for its intended use. The cost for dismantling and removing items of property, plant and equipment and site restoration are also included as part of the cost for 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 continue to be capitalized until the date in which development of the relevant asset is complete (i.e., connection to the electricity grid).

2. Summary of significant accounting policies (continued)

(g) Property, plant and equipment (continued)

Recognition and measurement (continued)

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (i.e., major components) within property, plant and equipment.

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 (i.e., corporate equipment and furniture), 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. Land is not depreciated.

The estimated useful lives are as follows:

	Useful life
Solar power projects	20 years
Equipment and furniture	1-5 years

(h) Intangible assets

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. Project permits and licenses have a finite useful life and are carried at cost less accumulated amortization. Note 2(d)

Amortization is calculated using the straight-line method to allocate the cost of the permits and licenses over their estimated useful lives, which are generally determined according to the term of the applicable energy supply contract signed with the local grid operators for the related solar power project. The estimated useful life of project permits and licenses associated with the Group’s solar power projects is 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.

2. Summary of significant accounting policies (continued)

(h) Intangible assets (continued)

Goodwill (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 (refer to Note 2(i) for future details on CGUs). 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.

On the disposal of a subsidiary, the associated goodwill is included in the profit or loss within other income or expenses. Any gains or losses recognized on the disposal are included in the carrying amount of goodwill relating to the entity sold.

(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 established 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 to sell, or 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.

2. Summary of significant accounting policies (continued)

(j) Financial assets (continued)

Classification (continued)

- *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 those 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, which are classified as non-current assets.
- *Held-to-maturity investments:* This category includes financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intent on and ability to hold to maturity.

Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade-date (i.e., the date on which the Group commits to purchase or sell the asset). 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 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 (i.e., a loss event) 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.

2. Summary of significant accounting policies (continued)

(j) Financial assets (continued)

Impairment of financial assets (continued)

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 consolidated statement of comprehensive income. 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 consolidated statement of comprehensive income.

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.

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 re-measured 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 forecast transaction (i.e., cash flow hedge); or
- hedges that don't qualify for hedge accounting (i.e., speculative hedges). 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.

2. Summary of significant accounting policies (continued)

(k) Derivative financial instruments and hedging activities (continued)

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 a 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 forecast 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.

Speculative hedges

Derivatives that do not meet the criteria to be designated as hedging instruments are classified as financial assets at fair value through profit or loss. These derivatives are recognized at fair value with changes recorded in the profit or loss within finance income or costs. The Group does not use derivative financial instruments for speculative purposes.

(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 the 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 is 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 or through dividend distributions.

(n) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue 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 balance sheet date. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2. Summary of significant accounting policies (continued)

(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 normally 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 of 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.

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 an offsetting increase to 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, which is a state-owned utility company. 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 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.

(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 of the discount as interest income. Interest income on impaired loans and receivables are recognized using the original effective interest rate.

(u) Share-based payment

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.

(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 employee's payroll.

2. Summary of significant accounting policies (continued)

(v) Employee benefits (continued)

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 these 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

The Group assesses goodwill for impairment on an annual basis. Determining whether goodwill is impaired requires the Company's management to estimate the recoverable amount of the CGUs to which goodwill has been allocated using value-in-use calculations. The value-in-use calculations require the Company's management to estimate the future cash flows expected to arise from the CGUs and to select a suitable discount rate in order to calculate the present value. The value-in-use calculations are based on the forecasted EBITDA over the expected life (i.e., up to 20 years, representing the term of the electricity sale agreements) 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 fixed 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 area where the projects are located. For the purposes of the Group's impairment assessment performed at December 31, 2011, the discount rate used was 8.1% (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). A 2% increase to the Group's discount rate (to 10.1%) would not have resulted in an impairment loss being recognized during the year ended December 31, 2011. 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, 2011, no impairment was provided in relation to the Group's previously recognized goodwill. Note 15

3. Critical accounting estimates and assumptions (continued)

(b) Acquisitions

The acquisition of subsidiaries is accounted for using the acquisition method of accounting in accordance with IFRS 3, which requires measuring the assets acquired and liabilities assumed at their fair values at the date of acquisition. The Company's management estimates the fair value of the assets acquired and liabilities assumed using business models developed by the Company's management used to value the solar power projects as outlined in Note 3(a) which include a wide number of operating and financial variables and assumptions that are subject to change as economic and market conditions vary. These changes could affect the fair value of the assets acquired and liabilities assumed and the amount of goodwill or negative goodwill recognized in the financial statements. During the year ended December 31, 2011, the Group adjusted the fair values assigned to the assets and liabilities on the acquisition of the Cassiopea and Centauro solar power projects that occurred in 2010, resulting in a reduction of $0.4 million to property, plant and equipment, $0.1 million to goodwill included within intangible assets and $0.1 million to deferred income tax liabilities. Note 11, Note 14 and Note 15

(c) Non-controlling interests

The Group's solar power projects are held through its 90%-owned subsidiary, SRH. The remaining 10% equity interest is held by Mr. Northland. The non-controlling interest is recognized as a financial liability which is measured as the higher between Mr. Northland's participation in SRH's net assets and the Company's minimum commitment of €4.0 million (i.e., guaranteed floor to be settled in cash if certain conditions are met). If Mr. Northland's 10% participation in the net equity of SRH surpasses the €4.0 million guaranteed floor, the excess will be recognized and disclosed as a non-controlling interest. At December 31, 2011, the Group recognized a financial liability of $5.2 million (2010: $5.3 million) associated with this arrangement. Note 27 and Note 30(b)

(d) Fair value of financial and derivative financial instruments

In determining the fair value of the Group's financial instruments, the Company's management uses judgement 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. For financial instruments carried at amortized cost, with a stated maturity, for which a quoted market price is not available, the estimated fair value is based on the expected future cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of floating rate instruments normally approximates their carrying value. At December 31, 2011, the Group recognized financial liabilities of $30.7 million (2010: $13.6 million) associated with its derivative financial instruments. Refer to Note 29(c) for a summary of the Group's financial instruments and the valuation techniques used to estimate their fair values.

(e) 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, 2011, the Group recognized $3.7 million (2010: $nil) of deferred income tax assets. Note 11

3. Critical accounting estimates and assumptions (continued)

(f) Pension obligations

In order to determine the value of the Group's pension obligations and related plan assets associated with its Swiss pension plan, the Group relies on information provided from Swiss Life Pensions Services AG, an accredited pension actuary in Switzerland. The valuations are based on a series of assumptions regarding future developments including demographic (i.e., mortality rates, disability rates, turnover rates and early retirement age) and economic assumptions (i.e., discount rate, price inflation, rate of expected return on plan assets and salary and pension increases). These assumptions could change over time and could have a significant impact on the net liability position recognized by the Group. At December 31, 2011, the Group recognized a net liability of $1.0 million (2010: $nil) associated with its Swiss pension plan. Note 26

(g) Share-based payments

The Group maintains an equity-settled, share-based compensation plan, under which the entity receives services from employees, consultants, directors and officers as consideration for equity instruments of the Group. In accordance with *IFRS 2, Share-based Payments*, the fair value of the share-based compensation is calculated using the Black-Scholes option-pricing model, which requires the Company's management to estimate the expected volatility of the grant, the risk-free interest rate and the dividend yield. The risk free interest rate is based on the information issued by the Central Bank of Canada (which represents the interest rate on bonds with a due date similar to the life of the option), the expected volatility is estimated based on the historic volatility of the stock for a period similar to the vesting period of the grants and the dividend yield is based on the annual dividends per share divided by the price per share. These variables are subject to change together with market and economic conditions, which may have a significant impact on the fair value of the stock options at the grant date to which the share-based payment expense, amortized over the vesting period, is based. During the year ended December 31, 2011, the Group recognized an expense of $1.1 million (2010: $5.6 million) related to share-based payments. Note 20

4. 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. During the year, the Board of Directors decided to include the Group's oil and gas investments within corporate and unallocated as these investments do not generate periodic income or loss. As a result, The Company's management has identified one reportable segment, the renewable energy segment, which includes the Group's solar power projects. All other revenues, expenses, assets and liabilities are included within corporate and unallocated, which includes oil and gas investments and all corporate overhead expenditure.

Revenues arise primarily from the sale of electricity produced by the Group's solar power projects in Italy. At December 31, 2011 and 2010, all of the Group's solar power projects were located in Italy.

4. Segment reporting (continued)

The following is an analysis of the Group's segment revenues, EBITDA and results for the year ended December 31, 2011:

	Renewable energy $'000	Corporate and unallocated $'000	Total $'000
Revenue	51,910	-	51,910
Operating expenses (excluding depreciation and amortization)	(2,115)	-	(2,115)
General and administrative expenses (excluding depreciation and amortization)	(2,309)	(12,499)	(14,808)
Impairment	(1,315)	(8,357)	(9,672)
Other income/expenses	3,047	140	3,187
Segment EBITDA	**49,218**	**(20,716)**	**28,502**
Depreciation and amortization	(18,658)	(334)	(18,992)
Finance income	1,745	60	1,805
Finance costs	(22,575)	(9,521)	(32,096)
Income/(loss) before income tax	**9,730**	**(30,511)**	**(20,781)**
Income tax expense	(5,344)	(164)	(5,508)
Income/(loss) for the year	**4,386**	**(30,675)**	**(26,289)**

The following is an analysis of the Group's segment revenues, EBITDA and results for the year ended December 31, 2010:

	Renewable energy $'000	Corporate and unallocated $'000	Total $'000
Revenue	11,565	-	11,565
Operating expenses (excluding depreciation and amortization)	(751)	-	(751)
General and administrative expenses (excluding depreciation and amortization)	(2,377)	(16,496)	(18,873)
Segment EBITDA	**8,437**	**(16,496)**	**(8,059)**
Depreciation and amortization	(5,749)	(241)	(5,990)
Finance income	3,826	1,635	5,461
Finance costs	(5,315)	(4,805)	(10,120)
Income/(loss) before income tax	**1,199**	**(19,907)**	**(18,708)**
Income tax recovery	513	74	587
Income/(loss) for the year	**1,712**	**(19,833)**	**(18,121)**

The following is an analysis of the Group's assets and liabilities at December 31, 2011:

	Renewable energy $'000	Corporate and unallocated $'000	Total $'000
Property, plant and equipment	363,790	319	364,109
Intangible assets	10,740	2,929	13,669
Available for sale investments	-	2,061	2,061
Cash and cash equivalents (including restricted cash)	30,135	9,521	39,656
Other assets	44,498	3,583	48,081
Total assets	**449,163**	**18,413**	**467,576**
Borrowings	328,465	78,390	406,855
Trade and other payables	3,072	9,719	12,791
Other liabilities	39,554	5,814	45,368
Total liabilities	**371,091**	**93,923**	**465,014**

4. Segment reporting (continued)

The following is an analysis of the Group's assets and liabilities at December 31, 2010:

	Renewable energy $'000	Corporate and unallocated $'000	Total $'000
Property, plant and equipment	340,883	342	341,225
Intangible assets	11,630	3,155	14,785
Available for sale investments	-	10,401	10,401
Cash and cash equivalents (including restricted cash)	41,643	3,381	45,024
Other assets	32,808	1,973	34,781
Total assets	**426,964**	**19,252**	**446,216**
Borrowings	273,733	75,224	348,957
Trade and other payables	24,527	11,404	35,931
Other liabilities	24,671	1,880	26,551
Total liabilities	**322,931**	**88,508**	**411,439**

The following is an analysis of the Group's revenue and non-current assets by geographical location:

	Revenue		Non-current assets (excluding financial assets and deferred income tax)	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Italy	51,910	11,565	399,052	362,407
Switzerland	-	-	191	565
Other	-	-	3,157	13,213
Total	**51,910**	**11,565**	**402,400**	**376,185**

The Group's country of domicile is Canada. However, all revenues from external customers are derived from Italy.

The Group's electricity is sold to the Italian state-owned company GSE and local utilities, Enel S.p.A. and Terna S.p.A.

	2011 $'000	2010 $'000
GSE	42,378	9,632
Local utilities (Enel S.p.A. and Terna S.p.A.)	9,532	1,933
Total revenue	**51,910**	**11,565**

5. Revenue

	2011 $'000	2010 $'000
FiT revenue	42,378	9,632
Market Price revenue	9,532	1,933
Total revenue	**51,910**	**11,565**

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 a solar park's electricity 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 is received in addition to the FiT. The Market Price is based on evacuated production (i.e., electricity produced less transmission losses). Production and pricing information is based on estimates until confirmed by the local utilities, Enel S.p.A. and Terna S.p.A.

5. Revenue (continued)

Solar-related revenues experience seasonality over the year due to the variability of daily sun hours in the summer versus winter months.

6. Operating expenses

	2011 $'000	2010 $'000
Operating and maintenance expenses	496	111
Depreciation and amortization	18,658	5,749
Insurance	635	305
Land lease expenses Note 28	224	146
Other operating expenses	759	190
Total operating expenses	**20,772**	**6,501**

O&M expenses of $0.5 million (2010: $0.1 million) relate to fees paid in connection with the operation and maintenance of the Group's solar power projects in Italy. The Group outsources O&M services to third parties.

Depreciation and amortization of $18.7 million (2010: $5.7 million) was recognized during the year ended December 31, 2011, related to operating solar power projects producing electricity during the year.

7. General and administrative expenses

	2011 $'000	2010 $'000
Salaries and benefits	6,485	4,292
Pension costs Note 26	239	186
Board of Directors fees	240	240
Share-based payment expense (non-cash item) Note 20	1,105	5,644
Corporate and professional fees	3,116	4,024
Listing, filing and marketing expenses	499	373
Depreciation and amortization	334	241
Office lease expenses Note 28	466	433
Office, travel and other general and administrative expenses	2,659	3,680
Total general and administrative expenses	**15,143**	**19,113**

During the year ended December 31, 2011, $0.4 million (2010: $0.9 million) of salaries and benefits were capitalized within property, plant and equipment in connection with construction services provided to the Helios ITA-3 and Nettuno solar power projects.

Corporate and professional fees of $3.1 million (2010: $4.0 million) incurred during the year ended December 31, 2011, related to legal and accounting fees paid in relation to the Group's statutory reporting obligations, the Company's listing requirements on the TSX and NASDAQ OMX and business development activities that took place during the year.

Depreciation and amortization of $0.3 million (2010: $0.2 million) was recognized during the year ended December 31, 2011, related to depreciation and amortization of the Group's corporate assets. Depreciation and amortization associated with the Group's operating solar power projects is included within operating expenses. Note 6

7. General and administrative expenses (continued)

The following is an analysis of the Group's headcount at December 31, 2011 and 2010 (excluding the non-executive Board of Directors):

	2011	2010
Senior management	2	2
Employees	24	21
Total headcount	**26**	**23**

8. Impairment

	2011 $'000	2010 $'000
Oil and gas investments	7,939	-
Development pipeline in Italy	1,733	-
Total impairment	**9,672**	**-**

(a) Oil and gas investments

The Group's wholly-owned subsidiary, PFC, holds available for sale investments in two oil and gas companies, PetroCumarebo SA ("PetroCumarebo") and Baripetrol SA ("Baripetrol"). At December 31, 2010, these investments were accounted for at cost less impairment as the fair value of the investments could not be measured reliably. Given the uncertainties associated with the political environment in Venezuela and the increased passage of time with no dividends being declared and paid to the Group by its oil and gas investments, during the year ended December 31, 2011, the Group recognized a further impairment loss of $7.9 million (2010: $nil) because the carrying value of the investments exceeded the expected recoverable amount. The recoverable amount is based on management's best estimate of the selling price less costs to sell. Note 16

(b) Development pipeline in Italy

In March 2011, the Italian government approved a decree that included land restrictions for solar PV plants installed on agricultural land after March 2012. Specifically, the decree, applicable to PV plants authorized after March 29, 2011 and to previously connected plants if not connected by March 29, 2012, included: (a) a 1 MW cap for ground-mounted PV plants installed on agricultural land; and (b) a ground coverage restriction up to 10% for PV plants installed on agricultural land (i.e., the PV plant can only cover up to 10% of the relevant land area). These restrictions impacted the Group's development pipeline in Italy and, as a result, during the year ended December 31, 2011, the Group assessed its non-operating assets for impairment and recognized an impairment loss of $1.7 million (2010: $nil) reducing the carrying value of property, plant and equipment, intangible assets and available for sale investments. Note 14, Note 15 and Note 16

9. Other income/expenses

	2011 $'000	2010 $'000
Liquidation damages	3,107	-
EPC contract cancellation fee	(185)	-
Right of use Note 25	48	-
Other income	217	-
Total other income	**3,187**	**-**

During the year ended December 31, 2011, the Group recognized a gain of $3.1 million (2010: $nil) from liquidation damages related to delays encountered by the EPC contractors responsible for the construction of three of the Group's solar power projects (Helios ITA, Etrion Lazio and SVE).

9. Other income/expenses (continued)

During the year ended December 31, 2011, the Group recognized an expense of $0.2 million for the EPC contract cancellation fee related to the Helios ITA-3 solar power project.

10. Finance income and costs

	2011 $'000	2010 $'000
Finance income:		
Changes in fair values of derivative financial instruments:		
- Interest rate swap contracts	1,116	4,758
- Ineffective portion reclassified from other comprehensive income	-	598
- Warrants	-	11
Foreign exchange gain	-	-
Other finance income	689	94
Total finance income	**1,805**	**5,461**
Finance costs:		
Interest rate expense:		
- Credit facilities and non-recourse project loans	12,028	3,722
- Interest rate swap contracts	6,216	3,337
- Corporate bond Note 22	5,262	-
- Credit facility with related party (Lundin Services BV) Note 22 and 30	1,493	1,569
- Bridge loan with related party (investment companies associated with the Lundin family) Note 22 and 30	2,483	-
- Amortization of transaction costs	914	531
Changes in fair values of derivative financial instruments:		
- Interest rate swap contracts	704	660
- Ineffective portion reclassified from other comprehensive income	651	-
Early redemption fee Note 19 and 30	2,833	-
Foreign exchange loss	391	298
Other finance costs	1,294	357
Total finance costs	34,269	**10,474**
Amounts capitalized on qualifying assets	(2,173)	(354)
Total finance costs	**32,096**	**10,120**
Net finance costs	**30,291**	**4,659**

The Group has entered into five credit facilities that are hedged using interest rate swap contracts in order to finance construction of its operating solar power projects in Italy. Applicable borrowing costs were capitalized as assets under construction within property, plant and equipment up to the point the associated solar power project was connected to the electricity grid. Refer to Note 22 and Note 24 for further details on the Group's credit facilities and derivative financial instruments.

During the year ended December 31, 2011, the Group recognized a fair value gain of $1.1 million (2010: $4.8 million) associated with two interest rate swap contracts (Helios ITA and SVE) before they were re-designated for hedge accounting during the year. In addition, during the year ended December 31, 2011, the Group recognized a fair value loss of $0.7 million (2010: $0.7 million) associated with two interest rate swap contracts (Helios ITA-3 and Nettuno) before they were designated for hedge accounting during the year. At December 31, 2011, all of the Group's interest rate swap contracts qualified for hedge accounting.

During the year ended December 31, 2011, the Group recognized a fair value loss of $0.6 million (2010: gain of $0.6 million) related to the ineffective portion of five cash flow hedges reclassified from other comprehensive income (Cassiopea, Helios ITA-3, Etrion Lazio, SVE and Nettuno). In addition, a fair value loss of $13.7 million (2010: gain of $2.1 million), net of tax and after the reclassification of the ineffective portion, was recognized in other comprehensive income related to the effective portion of the Group's interest rate swap contracts (Cassiopea, Helios ITA-3, Centauro, Helios ITA, Etrion Lazio, SVE and Nettuno). Note 21

10. Finance income and costs (continued)

During the year ended December 31, 2011, the Group recognized an equity-based financing fee of $5.3 million (2010: $nil) associated with the $36.1 million (€28 million) bridge loan obtained from investment companies associated with the Lundin family for the construction of the Helios ITA-3 and Nettuno solar power projects. As a result, the Group recognized interest expense of $2.5 million and an early redemption fee of $2.8 million within finance costs of which $2.1 million was capitalized within property plant and equipment, up to the date the solar power projects were connected to the electricity grid. Note 22 and Note 30(a)

11. Income taxes

(a) Income tax expense

	2011 $'000	2010 $'000
Current income tax expense/(recovery):		
Corporate income tax	5,411	406
Municipal income tax	1,846	279
Tax recovery on warrants	-	(256)
Total income tax expense:	**7,257**	**429**
Deferred income tax expense/(recovery)		
Current year	1,238	688
Tax benefits	(2,987)	(1,704)
Total deferred income tax recovery	**(1,749)**	**(1,016)**
Total income tax expense/(recovery)	**5,508**	**(587)**

During the year ended December 31, 2011, the Group recognized an income tax expense of $7.2 million (2010: $0.6 million) associated with its Italian solar power projects and an income tax expense of $0.1 million (2010: $0.1 million) associated with its Swiss subsidiary. In addition, during the year ended December 31, 2010, the Group recognized a tax recovery of $0.3 million on warrants that expired during the year.

During the year ended December 31, 2011, the Group recognized a deferred income tax expense of $1.2 million (2010: $0.7 million) related to temporary differences arising between the tax bases of assets and liabilities and their carrying amounts and a deferred income tax credit of $2.9 million (2010: $1.7 million) associated with unutilized tax losses related to non-deductible interest carried forward in Italy (i.e., 30% of EBITDA).

The Group's income tax expense for the year ended December 31, 2011, can be reconciled to the loss before tax at the Canadian statutory tax rate of 26.5% (2010: 28.5%) as follows:

	2011 $'000	2010 $'000
Loss before tax	**(20,781)**	**(18,708)**
Income tax expense calculated at 26.5% (2010: 28.5%)	(5,507)	(5,332)
Tax effects of:		
Non-deductible expenses	5,192	3,697
Effect of non-taxable income	(118)	(1,003)
Tax losses not recognized	6,987	2,329
Differences in foreign tax rates	(1,046)	(278)
Total income tax expense/(recovery)	**5,508**	**(587)**

11. Income taxes (continued)

(b) Current income tax liabilities

	2011 $'000	2010 $'000
Corporate income tax	3,048	1,297
Municipal income tax	1,117	700
Total current income tax liabilities	**4,165**	**1,997**

(c) Deferred income tax

The movement of deferred income tax assets and liabilities during the year ended December 31, 2011, is as follows:

	Opening balance $'000	Profit or loss $'000	Other comprehensive income $'000	Exchange differences $'000	Business combination $'000	Total $'000	Off-set of balances $'000	Closing balance $'000
Taxable temporary differences:								
Property, plant and equipment	15,339	1,278	-	(568)	(114)	15,935	(12,514)	3,421
Intangible assets	756	(83)	-	(18)	-	655	(38)	617
Derivative financial instruments	26	77	-	-	-	103	(103)	-
Total deferred income tax liability	**16,121**	**1,272**	**-**	**(586)**	**(114)**	**16,693**	**(12,655)**	**4,038**
Deductible temporary differences:								
Property, plant and equipment	-	145	-	(10)	-	135	-	135
Intangible assets	1,762	(427)	-	(26)	-	1,309	(1,170)	139
Tax losses carried forward	649	(308)	-	1	-	342	(120)	222
Interest expense carried forward	1,760	3,295	-	(288)	-	4,767	(3,472)	1,295
Derivative financial instruments	3,163	65	6,882	(582)	-	9,528	(7,850)	1,678
Provisions	25	250	-	(18)	-	257	(43)	214
Total deferred income tax asset	**7,359**	**3,020**	**6,882**	**(923)**	-	**16,338**	**(12,655)**	**3,683**
Net deferred income tax liability	**8,762**	**(1,748)**	**(6,882)**	**337**	**(114)**	**355**	**-**	**355**

The movement of deferred income tax assets and liabilities during the year ended December 31, 2010, is as follows:

	Opening balance $'000	Profit or loss $'000	Other comprehensive income $'000	Acquisitions $'000	Exchange differences $'000	Closing balance $'000
Taxable temporary differences:						
Property, plant and equipment	-	(307)	-	15,503	143	15,339
Intangible assets	773	1	-	35	(53)	756
Derivative financial instruments	-	(41)	67	-	-	26
Total deferred income tax liability	**773**	**(347)**	**67**	**15,538**	**90**	**16,121**
Deductible temporary differences:						
Intangible assets	-	97	-	1,635	30	1,762
Tax losses carried forward	-	619	-	23	7	649
Interest expense carried forward	-	1,086	-	652	22	1,760
Derivative financial instruments	-	(1,141)	(1,085)	5,289	100	3,163
Provisions	-	8	-	17	-	25
Total deferred income tax asset	**-**	**669**	**(1,085)**	**7,616**	**159**	**7,359**
Net deferred income tax liability	**773**	**(1,016)**	**1,152**	**7,922**	**(69)**	**8,762**

11. Income taxes (continued)

(c) Deferred income tax (continued)

At December 31, 2010, the Group's deferred income tax liabilities were shown net of deferred income tax assets resulting in a net deferred tax liability of $8.8 million. At December 31, 2011, the deferred income tax assets and liabilities were presented separately. 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, 2011, deferred income tax assets of $3.7 million (2010: $7.4 million) were expected to be recovered more than twelve months after the balance sheet date. At December 31, 2011, the Group had unrecognized deferred income tax assets in respect of tax losses associated with Italy, Canada, Luxembourg and Venezuela of $15.5 million (2010: $10.5 million), of which $1.7 million (2010: $2.3 million) expires between one and ten years, $4.0 million (2010: $2.4 million) expires between ten and twenty years and $9.8 million (2010: $5.8 million) has no expiry. In addition, at December 31, 2011, the Group had unrecognized deferred income tax assets of $0.2 million in respect of timing differences associated with its Swiss pension.

In addition, during the year ended December 31, 2011, the Group recognized an income tax expense of $6.2 million (2010: income tax recovery of $1.2 million) within other comprehensive income associated with its derivative financial instruments (i.e., interest rate swap contracts).

12. Loss per share

Basic and diluted loss per share is calculated by dividing the net loss for the year by the weighted average number of shares outstanding during the year. The calculation of the basic and diluted loss per share for the year ended December 31, 2011 and 2010, is based on the following data:

	2011 $'000	2010 $'000
Loss attributable to owners of the Company	(26,289)	(18,121)
	Number of shares	
Weighted average number of shares outstanding	184,511,956	166,139,572
Basic and diluted loss per share	**$(0.14)**	**$(0.11)**

Diluted loss per share equals basic loss per share as, due to losses incurred in 2010 and 2011, there is no dilutive effect from the existing share options and exchange right. Note 20 and Note 30(b)

13. Business combinations

The provisional values of assets and liabilities recognised on acquisition are their estimated fair values at the date of acquisition. IFRS 3 permits retrospective adjustments to the items recognized in the original accounting for business combinations up to a maximum of one year after the acquisition date, if new information about facts and circumstances existing at the acquisition date becomes available. As a result, the fair values assigned to the assets acquired and liabilities assumed may change in future reporting periods in light of new facts and circumstances that may become available.

13. Business combinations (continued)

(a) Cassiopea

In August 2010, the Company's 90%-owned subsidiary, SRH, acquired from SunRay Renewable Energy Ltd ("SunRay") 100% of the outstanding shares of an Italian company that owned 100% of the Cassiopea solar power project. In June 2011, a settlement agreement was entered into by the Company and SunPower, the parent company of SunRay, retrospectively reducing the purchase price by $0.3 million from $15.7 million to $15.4 million. The adjustment to the purchase price impacted the provisional values of the assets and liabilities on acquisition, resulting in a reduction of $0.3 million to property, plant and equipment, $0.1 million to goodwill included within intangible assets and $0.1 million to deferred income tax liabilities. Note 11, Note 14 and Note 15

(b) Centauro

In October 2010, SRH acquired from SunRay 100% of the outstanding shares of an Italian company that owned 100% of the Centauro solar power project. In June 2011, a settlement agreement was entered into by the Company and SunPower, retrospectively reducing the purchase price by $0.1 million from $9.3 million to $9.2 million. The adjustment to the purchase price impacted the provisional values of the assets and liabilities on acquisition, resulting in a reduction of $0.1 million to property, plant and equipment, $31,500 to goodwill included within intangible assets and $31,500 to deferred income tax liabilities. Note 11, Note 14 and Note 15

14. Property, plant and equipment

	Land $'000	Solar power projects $'000	Assets under construction $'000	Equipment and furniture $'000	Total $'000
Cost:					
At January 1, 2010	**184**	**-**	**453**	**807**	**1,444**
Additions	202	-	40,919	272	41,393
Acquisition of subsidiaries	8,191	283,398	2,907	4	294,500
Acquisition of assets	4,813	-	-	-	4,813
Transfer from assets under construction	-	22,876	(22,876)	-	-
Decommissioning and site restoration costs Note 25	-	621	-	-	621
Disposal	-	-	-	(160)	(160)
Exchange differences	140	4,403	440	14	4,997
At December 31, 2010	**13,530**	**311,298**	**21,843**	**937**	**347,608**
Additions	-	617	54,638	181	55,436
Transfer from assets under construction	-	77,144	(77,144)	-	-
Decommissioning and site restoration costs	-	183	-	-	183
Adjustment for business combinations Note 13	-	(418)	-	-	(418)
Impairment	(150)	-	(179)	-	(329)
Exchange differences	(428)	(15,318)	842	(16)	(14,920)
At December 31, 2011	**12,952**	**373,506**	**-**	**1,102**	**387,560**
Accumulated depreciation:					
At January 1, 2010	**-**	**-**	**-**	**589**	**589**
Charge for the year	-	5,722	-	122	5,844
Disposals	-	-	-	(126)	(126)
Exchange differences	-	70	-	6	76
At December 31, 2010	**-**	**5,792**	**-**	**591**	**6,383**
Charge for the year	-	18,356	-	197	18,553
Exchange differences	-	(1,477)	-	(8)	(1,485)
At December 31, 2011	**-**	**22,671**	**-**	**780**	**23,451**
Net book value:					
At December 31, 2010	13,530	305,506	21,843	346	341,225
At December 31, 2011	12,952	350,835	-	322	364,109

14. Property, plant and equipment (continued)

The Etrion Lazio solar power project was completed in December 2010. However, it was not connected to the electricity grid until April 2011. Upon connection to the electricity grid, the costs of $22.5 million associated with this solar power project were transferred from assets under construction to solar power projects.

The Helios ITA-3 and Nettuno solar power projects were completed and connected to the electricity grid in August 2011 at which time the costs of $46.0 million and $8.6 million, respectively, associated with these solar power projects were transferred from assets under construction to solar power projects.

During the year ended December 31, 2011, $2.1 million (2010: $nil) of the equity-based financing fee associated with the bridge loan obtained from investment companies associated with the Lundin family for the construction of the Helios ITA-3 and Nettuno solar power projects, was capitalized within property, plant and equipment, up to the date the solar power projects were connected to the electricity grid. Note 22 and Note 30(a)

During the year ended December 31, 2011, the Group adjusted the provisional values of assets and liabilities recognized on the acquisition of the Cassiopea and Centauro solar power projects resulting in a reduction to property, plant and equipment of $0.4 million. Note 13

At December 31, 2011, $2.5 million (2010: $0.4 million) of borrowing costs were capitalized within property, plant and equipment, of which $2.2 million (2010: $ 0.4 million) was capitalized during the year ended December 31, 2011.

During the year ended December 31, 2011, the Group recognized an impairment loss of $0.3 million (2010: $nil) in relation to the development pipeline in Italy due to the recent changes to the solar FiT regime, reducing the carrying value of land and assets under construction by $0.1 million and $0.2 million, respectively. The indicator for the Group's impairment assessment for the non-operating assets was the new decrees approved by the Italian government in 2011. There were no indicators of impairment associated with the Group's operating assets affecting the carrying value of its solar power projects. Note 8

15. Intangible assets

	Goodwill $'000	Licenses and permits $'000	Other $'000	Total $'000
Cost:				
At January 1, 2010	**695**	**4,913**	**22**	**5,630**
Additions	-	1,976	13	1,989
Acquisition of subsidiaries	1,212	1,006	-	2,218
Acquisition of assets	-	5,177	320	5,497
Exchange differences	(41)	(225)	-	(266)
At December 31, 2010	**1,866**	**12,847**	**355**	**15,068**
Additions	-	750	-	750
Adjustment for business combinations Note 13	(107)	-	-	(107)
Impairment	-	(530)	(311)	(841)
Exchange differences	(59)	(368)	(11)	(438)
At December 31, 2011	**1,700**	**12,699**	**33**	**14,432**
Accumulated amortization:				
At January 1, 2010	**-**	**-**	**-**	**-**
Charge of the year	-	280	-	280
Exchange differences	-	3	-	3
At December 31, 2010	**-**	**283**	**-**	**283**
Charge of the year	-	526	-	526
Exchange differences	-	(46)	-	(46)
At December 31, 2011	**-**	**763**	**-**	**763**
Net book value:				
At December 31, 2010	1,866	12,564	355	14,785
At December 31, 2011	1,700	11,936	33	13,669

During the year ended December 31, 2011, the Group adjusted the provisional values of assets and liabilities recognized on the acquisition of the Cassiopea and Centauro solar power projects resulting in a reduction to goodwill of $0.1 million.

During the year ended December 31, 2011, the Group recognized an impairment loss of $0.8 million (2010: $nil) in relation to the development pipeline in Italy due to the recent changes to the solar FiT regime, reducing the carrying value of licenses and permits and other intangible assets by $0.5 million and $0.3 million, respectively. The indicator for the Group's impairment assessment for the non-operating assets was the new decrees approved by the Italian government in 2011. There were no indicators of impairment associated with the Group's operating solar power projects affecting the carrying value of licenses and permits. Note 8

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). Goodwill has been allocated to the following CGU's relating to the Group's solar power projects at December 31, 2011 and 2010:

	2011 $'000	2010 $'000
Renewable energy segment (Italy):		
CGU 1 (SVE)	31	34
CGU 2 (Helios ITA)	120	127
CGU 3 (Helios ITA-3)	188	199
CGU 4 (Etrion Lazio)	54	58
CGU 5 (Cassiopea)	799	917
CGU 6 (Centauro)	480	531
CGU 7 (Nettuno)	28	-
Total goodwill	**1,700**	**1,866**

At December 31, 2011, the Group assessed the carrying value of goodwill for impairment and determined that the recoverable amount of the CGU's to which goodwill had been allocated exceeded their carrying values, and, as a result, no impairment was provided during the year ended December 31, 2011 (2010: $nil).

16. Financial assets

	Available for sale $'000	Loans and receivables $'000	Derivative financial instruments $'000	Total $'000
At December 31, 2011				
Non-current assets:				
Available for sale investments	2,061	-	-	2,061
Total non-curent financial assets	**2,061**	**-**	**-**	**2,061**
Current assets				
Trade and other receivables	-	11,430	-	11,430
Cash and cash equivalents	-	39,656	-	39,656
Total current financial assets	**-**	**51,086**	**-**	**51,086**
Total financial assets	**2,061**	**51,086**	**-**	**53,147**
At December 31, 2010				
Non-current assets:				
Available for sale investments	10,401	-	-	10,401
Derivative financial instruments	-	-	1,247	1,247
Total non-current financial assets	**10,401**	**-**	**1,247**	**11,648**
Current assets				
Trade and other receivables	-	7,460	-	7,460
Cash and cash equivalents	-	45,024	-	45,024
Total current financial assets	**-**	**52,484**	**-**	**52,484**
Total financial assets	**10,401**	**52,484**	**1,247**	**64,132**

16. Financial assets (continued)

Available for sale investments

	Company's share	2011 $'000	2010 $'000
PetroCumarebo SA	40%	392	1,900
Baripetrol SA	5%	1,669	8,100
Energy Service Provider	2%	-	401
Total available for sale investments		**2,061**	**10,401**

At December 31, 2011 and 2010, the available for sale investments represented unquoted equity investments.

Oil and gas investments

The Group's wholly-owned subsidiary, PFC, owns 40% of PetroCumarebo and 5% of Baripetrol, two Venezuelan companies controlled by Petróleos de Venezuela, the Venezuelan national oil company. PetroCumarebo holds the operating rights to the East and West Falcon blocks in northwestern Venezuela and has current onshore production of oil and natural gas. Baripetrol holds the operating rights to the Colon Block in western Venezuela and has current onshore production of oil and natural gas. The investments in PetroCumarebo and Baripetrol are denominated in United States dollars.

Although the Group has a 40% interest into PetroCumarebo, at December 31, 2010 and 2011, this investment was classified as an available for sale investment as the Group did not have the ability to exercise significant influence over the financial and operational decisions of the company. This is primarily due to the political situation in Venezuela, which has hindered the collection of dividends in recent years.

At December 31, 2010, these investments were accounted for at cost less impairment as the fair value of the investments could not be measured reliably. During the year ended December 31, 2011, the Group recognized a further impairment loss of $7.9 million (2010: $nil) associated with these investments because the carrying value of the investments exceeded the expected recoverable amount. The recoverable amount is based on management's best estimate of the selling price less costs to sell. Note 8

Investment in Energy Service Provider

On June 24, 2010, the Group's 90%-owned subsidiary, SRH, acquired an investment in Energy Service Provider, an Italian solar developer, as part of the acquisition of the Deutsche Bank solar portfolio in Italy. During the year ended December 31, 2011, the Group recognized an impairment loss of $0.4 million (2010: $nil) related to the development pipeline in Italy due to recent changes in the solar FiT program in Italy. Note 8

17. Trade and other receivables

	2011 $'000	2010 $'000
Current portion of trade and other receivables:		
Financial assets[(1)]		
- Trade receivables	10,817	5,603
- Term deposits	613	1,379
- Other financial assets	-	478
Total financial assets Note 16	11,430	7,460
Input VAT	6,644	5,979
Advances paid and prepaid expenses	676	156
Other current assets	1,684	97
Impairment loss provision	(658)	(333)
Total current portion of trade and other receivables	**19,776**	**13,359**
Non-current portion of trade and other receivables:		
Input VAT	19,971	19,918
Investment tax credit, advances paid and prepaid expenses	4,707	315
Impairment loss provision	(56)	(58)
Total non-current portion of trade and other receivables	**24,622**	**20,175**
Total trade and other receivables	**44,398**	**33,534**

Note:

(1) Financial assets exclude advances, prepaid expenditure, input VAT and other non-financial assets. Note 16

The carrying values of the financial assets approximate their fair values due to these assets having a relatively short maturity, as 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 plants in Italy to the operators of the electricity grid.

Prepaid tax and input VAT primarily relate to amounts expected to be collected for eligible expenditure from the relevant authorities in Italy associated with the Group's solar power projects. A portion of the VAT associated with the Group's solar power projects in Italy is classified as non-current as the amounts are expected to be recovered after twelve months from the balance sheet date. The non-current portion of the VAT has not been discounted as the amounts are interest-bearing at market rates. In addition, a tax credit receivable of $1.2 million included within the current portion of prepaid taxes and input VAT relates to the Group's past oil and gas operations.

The following is an aging analysis for these trade receivables at December 31, 2011 and 2010:

	2011 $'000	2010 $'000
Up to three months	3,359	672
3 to 6 months	1,838	2,359
6 to 9 months	917	-
Total trade and other receivables past due but not impaired	**6,114**	**3,031**

At December 31, 2011, trade and other receivables of $6.1 million (2010: $3.0 million) were past due but not impaired of which $5.2 million was received after the balance sheet date. These amounts were owed from the Italian state-owned utility company. The remaining amounts to be collected of $0.9 million (2010: $nil) primarily related to three solar power projects (Helios ITA-3, Etrion Lazio and Nettuno) connected to the electricity grid in 2011 and are expected to be received during the second quarter of 2012 following the normal process for new projects connected to the electricity grid in Italy.

17. Trade and other receivables (continued)

The following is an analysis of the movements on the Group's provision for impairment during the year ended December 31, 2011 and 2010:

	2011 $'000	2010 $'000
Impairment loss provision at the beginning of the year	**391**	**309**
Provision recognized during the year	303	58
Exchange differences	20	24
Total impairment loss provision	**714**	**391**
- Current portion	658	333
- Non-current portion	56	58

During the year ended December 31, 2011, the Group recognized an impairment provision of $0.3 million related to an advance paid to an Italian developer that was written-off during the year. During the year ended December 31, 2010, the Group recognized an impairment provision of $0.1 million related to an amount owed to one of its solar power projects (Helios ITA-3), to which the Group is currently in negotiation over collection. In addition, during the year ended December 31, 2008, the Group recognized an impairment provision of $0.3 million related to a tax credit receivable associated with its oil and gas investments that was written-off during the year. Amounts charged to the allowance account are generally written-off when there is no expectation of recovering additional cash.

The carrying value of the Group's financial assets included within trade and other receivables are denominated in the following currencies:

	2011 $'000	2010 $'000
Euros	42,813	32,075
Canadian dollars	243	162
Swiss francs	213	187
Venezuelan bolivars	1,129	1,110
Total trade and other receivables	**44,398**	**33,534**

18. Cash and cash equivalents (including restricted cash)

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

	2011 $'000	2010 $'000
Cash at banks	39,656	45,024
Total	**39,656**	**45,024**

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

	2011 $'000	2010 $'000
Unrestricted cash and cash equivalents	10,004	4,748
Cash and cash equivalents restricted to solar power projects	29,652	40,276
Total	**39,656**	**45,024**

Restricted cash relates to cash and cash equivalents held at the project level that is 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 or through dividend distributions.

19. Share capital

The Company has authorized capital consisting of an unlimited number of common shares, of which 187,536,120 are issued and outstanding as at December 31, 2011 (2010: 179,766,120). 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.

	Number of shares outstanding	Share capital $'000
At January 1, 2010	**158,501,120**	**107,557**
Private placement	21,000,000	15,051
Share capital reduction	-	(106,010)
Stock options exercised Note 20	265,000	143
At December 31, 2010	**179,766,120**	**16,741**
Equity-based financing fee Note 30(a)	6,500,000	5,596
Stock options exercised Note 20	1,270,000	956
At December 31, 2011	**187,536,120**	**23,293**

In August 2010, the Company completed an equity financing through a private placement of 21,000,000 common shares at a price of $0.72 (CAD$0.75), raising gross proceeds of $15.1 million (CAD$15.8 million).

At an extraordinary general meeting held in October 2010, the shareholders of the Company approved a resolution to reduce the Company's stated capital effective December 31, 2010, by an amount equal to the Company's consolidated accumulated deficit at December 31, 2010, to better reflect the Company's actual and expected capitalization and shareholder's equity. After giving effect to the share capital reduction, the Company's share capital was reduced by $106.0 million to $16.7 million. A corresponding amount was used to reduce the Group's accumulated deficit at December 31, 2010 to $nil. No amount was distributed to shareholders on the reduction of the Company's share capital.

No dividends were declared in the years ended December 31, 2010 and 2011.

During the year ended December 31, 2011, the Company issued 1,270,000 shares (2010: 265,000) with a fair value of $0.75 (CAD$0.73) (2010: $0.54 (CAD$0.56)) as a result of stock options exercised during the year. Note 20

On February 1, 2010, 5,000,000 warrants expired unexercised. Refer to Note 11 for income tax implications to the expired warrants.

20. Share-based payments

The Company maintains an equity-settled stock option awards scheme. All outstanding stock options have a contractual term ranging from five to ten years and generally vest over a period of three years. The exercise price is set equal to the market price at the date of grant. In certain circumstances, the Board of Directors may authorize different vesting periods for particular stock options granted. Options are conditional on the employee being employed during the vesting period.

During the year ended December 31, 2011, the Group recognized an expense of $1.1 million (2010: $5.6 million) related to share-based payments. Included within this amounts was $0.4 million (2010: $4.8 million) related to the carried interest associated with Mr. Northland's 10% equity interest in the Company's subsidiary, SRH. Note 30(b)

Expressed in US$ unless otherwise stated

20. Share-based payments (continued)

A summary of the Company's outstanding stock options at December 31, 2011 and 2010, are as follows:

	Number of share options	Weighted average exercise price CAD$
At January 1, 2010	**11,383,640**	**1.16**
Granted	1,677,200	0.68
Exercised	(265,000)	0.35
Forfeited	(2,723,640)	1.60
Settled	(2,020,000)	1.90
At December 31, 2010	**8,052,200**	**0.73**
Granted	485,000	0.66
Exercised	(1,270,000)	0.43
Forfeited	(1,020,000)	0.58
Expired	(1,880,000)	1.00
At December 31, 2011	**4,367,200**	**0.74**
Share options exercisable:		
At December 31, 2010	4,671,668	0.81
At December 31, 2011	**2,482,399**	**0.82**

A summary of the stock options issued and outstanding at December 31, 2011, is set out below:

Exercise price (CAD$)	Number of share options outstanding	Number of share options exercisable	Expiry date	Weighted average contractual life (years)
0.25	33,333	33,333	December 8, 2013	1.94
0.35	290,000	193,333	May 13, 2014	2.37
0.55	1,331,667	818,334	September 11, 2014	2.70
0.61	580,000	193,334	January 6, 2015	3.02
0.66	1,032,200	344,065	December 7, 2015	3.93
0.86	125,000	41,667	October 18, 2015	3.80
0.90	175,000	58,333	April 27, 2015	3.32
1.00	200,000	200,000	June 26, 2017	5.49
1.23	150,000	150,000	December 26, 2016	4.99
1.37	100,000	100,000	August 13, 2013	1.62
1.55	100,000	100,000	March 10, 2016	4.19
1.59	250,000	250,000	April 28, 2018	6.32
	4,367,200	**2,482,399**		

The Company recognizes a compensation expense included within general and administrative expenses on stock options 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. The weighted average fair value of options granted and the assumptions used in their determination are as follows:

	2011	2010
Weighted average share price at grant date	CAD$0.66	CAD$0.76
Exercise price	CAD$0.66	CAD$0.76
Risk-free interest rate	2.37%	2.50%
Expected volatility	82.05%	99.00%
Dividend yield rate	0.00%	0.00%
Contractual life of stock options	5 years	5 years
Fair value at grant date	CAD$0.44	CAD$0.42

20. Share-based payments (continued)

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 option. For options granted after September 30, 2010, the Company has used the daily share price since September 30, 2009, the date the Company completed its first renewable energy acquisition.

21. Other reserves

	Translation reserve $'000	Hedging reserve $'000	Transactions with non-controlling interests $'000	Total other reserves $'000
At January 1, 2010	**(375)**	**-**	**-**	**(375)**
Currency translation difference:				
- Gain on translation adjustment	33	-	-	33
Cash flow hedges:				
- Gain on fair value movements	-	2,878	-	2,878
- Tax on gain on fair value movements	-	(799)	-	(799)
- Ineffective portion of fair value movements to profit or loss	-	(598)	-	(598)
- Tax on ineffective portion of fair value movements to profit or loss	-	164	-	164
- Effective portion of fair value movements to profit or loss	-	1,924	-	1,924
- Tax on effective portion of fair value movements to profit or loss	-	(529)	-	(529)
Transactions with non-controlling interests	-	-	43	43
At December 31, 2010	**(342)**	**3,040**	**43**	**2,741**
Currency translation difference:				
- Gain on translation adjustment	1,153	-	-	1, 153
Cash flow hedges:				
- Loss on fair value movements	-	(20,205)	-	(20,205)
- Tax on loss on fair value movements	-	6,460	-	6,460
- Ineffective portion of fair value movements to profit or loss	-	651	-	651
- Tax on ineffective portion of fair value movements to profit or loss	-	(229)	-	(229)
At December 31, 2011	**811**	**(10,283)**	**43**	**(9,429)**

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 of the Group's interest rate swap contracts that are designated and qualify as cash flow hedges.

Included within other comprehensive income during the year ended December 31, 2011 was $20.2 million (2010: gain of $2.9 million) representing the loss on cash flow hedges before the reclassification of the ineffective portion of $0.7 million (2010: $0.6 million) to the profit or loss within finance costs. Note 10

22. Borrowings

All of the Group's borrowings are denominated in Euros and the minimum principal repayment obligations are as follows:

	2011 $'000	2010 $'000
Less than 1 year	16,030	88,089
Between 1 and 5 years	152,722	39,758
After 5 years	238,103	221,110
Total borrowings	**406,855**	**348,957**

22. Borrowings (continued)

(a) Non-recourse project loans

	BIIS[1], Societe Generale and WestLB $'000	Natixis, WestLB and Mediocreval $'000	Barclays $'000	Societe Generale and Dexia $'000	Centrobanca $'000	Total $'000
At January 1, 2010	-	-	-	-	**1,279**	**1,279**
Proceeds from loans	-	6,320	-	5,290	11,454	23,064
Borrowings assumed on acquisition	153,552	-	56,253	40,000	-	249,805
Repayment of loans and interest	(6,239)	-	(61)	(3,041)	(42)	(9,383)
Accrued interest	2,373	-	501	593	255	3,722
Amortization of transaction costs	111	-	19	46	66	242
Exchange differences	2,233	-	(1,485)	3,840	416	5,004
At December 31, 2010	**152,030**	**6,320**	**55,227**	**46,728**	**13,428**	**273,733**
- Current portion	5,637	-	1,648	5,039	541	12,865
- Non-current portion	146,393	6,320	53,579	41,689	12,887	260,868
At January 1, 2011	**152,030**	**6,320**	**55,227**	**46,728**	**13,428**	**273,733**
Proceeds from loans	-	74,372	-	-	5,393	79,765
Repayment of loans and interest	(11,784)	(930)	(3,433)	(5,627)	(2,464)	(24,238)
Accrued interest	6,652	748	2,287	1,411	733	11,831
Amortization of transaction costs	290	121	78	100	79	668
Exchange differences	(4,550)	(4,798)	(1,757)	(1,396)	(795)	(13,296)
At December 31, 2011	**142,638**	**75,833**	**52,402**	**41,216**	**16,374**	**328,463**
- Current portion	6,360	2,653	2,811	2,083	725	14,632
- Non-current portion	136,278	73,180	49,591	39,133	15,649	313,831

Note:

(1) Banca Infrastrutture Innovazione e Sviluppo (Intesa Sanpaolo Group) (BIIS).

The non-recourse project loans (i.e., facilities to which the lending bank is only entitled to the assets from the associated project) held by the Group's Italian subsidiaries, obtained to finance the construction of the Group's 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 2.75%. At December 31, 2011 and 2010, all non-recourse projects loans were hedged through interest rate swap contracts. Counterparties to the non-recourse project loans do not have unconditional or unilateral discretionary rights to accelerate repayment to earlier dates.

At December 31, 2011 and 2010, the fair value of the non-recourse project loans approximated their carrying value, as the loans bear floating interest rates.

At December 31, 2011, the Group had $2.2 million (€1.7 million) undrawn on the facility with Natixis, WestLB and Mediocreval relating to the Helios ITA-3 and Nettuno solar power projects. These amounts are expected to be drawn during the first quarter of 2012 and will be used to pay the final invoices associated with the construction activities. At December 31, 2010, the Group had $73.0 million (€56.6 million) undrawn on the facility with Natixis, WestLB and Mediocreval related to the Etrion Lazio solar power projects and $1.5 million (€1.2 million) undrawn on the facility with BIIS, Societe Generale and WestLB related to the Cassiopea solar power project.

In order to secure the Group's non-recourse project loans, the Group pledged as collateral the fixed assets (i.e., solar power projects and land) associated with the solar power projects financed by these facilities (i.e., Cassiopea, Helios ITA-3, Centauro, Helios ITA, Etrion Lazio, SVE and Nettuno). The value of the Group's fixed assets held as collateral at December 31, 2011 was $364.0 million (2010: $334 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 local utilities (Enel S.p.A. and Terna S.p.A.) and the proceeds from the collection of input VAT accumulated for construction costs.

22. Borrowings (continued)

(a) Non-recourse project loans (continued)

The operations of the Group's solar power projects are restricted by operational and financial covenants. At December 31, 2011 and 2010, the Group was not in breach of any of the imposed covenants.

(b) Corporate borrowings

	Lundin Services $'000	Corporate bond $'000	Lundin family[1] $'000	Total $'000
At January 1, 2010	**-**	**-**	**-**	**-**
Proceeds from loans	88,155	-	-	88,155
Repayment of loans and interest	(15,128)	-	-	(15,128)
Accrued interest	1,569	-	-	1,569
Amortization of transaction costs	289	-	-	289
Exchange difference	339	-	-	339
At December 31, 2010	**75,224**	**-**	**-**	**75,224**
- Current portion	75,224	-	-	75,224
- Non-current portion	-	-	-	-
At January 1, 2011	**75,224**	-	-	**75,224**
Proceeds from loans	-	86,654	40,835	127,489
Repayment of loans and interest	(83,305)	(3,693)	(38,564)	(125,562)
Accrued interest	1,509	5,262	-	6,771
Amortization of transaction costs	114	121	-	235
Exchange difference	6,458	(9,952)	(2,271)	(5,765)
At December 31, 2011	**-**	**78,392**	**-**	**78,392**
- Current portion	-	1,398	-	1,398
- Non-current portion	-	76,994	-	76,994

Note:

(1) The bridge loan was obtained from Zebra Holdings and Investments Sarl and Lorito Holdings Sarl, investment companies wholly-owned by Lundin family trusts.

At December 31, 2011, the fair value of the corporate bond approximated its carrying value, as the corporate bond is accounted for at amortized cost. At December 31, 2010, the loan from Lundin Services BV approximated its carrying value.

At December 31, 2011, the Group was not in breach of any of the imposed operational and financial covenants associated with its corporate borrowings.

Lundin Services BV loan

In April 2010, the Company entered into a loan facility agreement with Lundin Services BV, a wholly-owned subsidiary of Lundin Petroleum AB, for up to $77.4 million (€60.0 million) in order to finance capital and operating expenditures of the Group. The loan carried an annual interest rate of Euribor plus a margin of 3% until March 31, 2011, with a margin of 5% thereafter. In May 2011, the net proceeds from the Company's bond issue were used to repay the loan facility in full. Note 30(a)

Corporate bond

In April 2011, the Company issued $77.4 million (€60.0 million) of corporate bonds in the Norwegian bond market at 9% annual interest with a 4-year maturity. At December 31, 2011, the amount outstanding, including accrued interest and net of transaction costs, was $78.4 million (December 31, 2010: $nil). Note 30(a)

22. Borrowings (continued)

(b) Corporate borrowings (continued)

Corporate bond (continued)

The corporate bond agreement includes a call option which allows the Company to redeem the bond early (in full or in part), after the first, second and third year at a specified percentage over par value (i.e., a fixed premium) of 5%, 3% and 1%, respectively. At December 31, 2011, no amount was recognized in relation to this option. In addition, the corporate bond has a minimum unrestricted cash balance requirement of €3 million.

Lundin family bridge loan

In order to accelerate construction of the Helios ITA-3 and Nettuno solar power projects, in June 2011, the Company received a $36.1 million (€28 million) bridge loan from investment companies associated with the Lundin family. The bridge loan was non-interest bearing and matured in June 2012. In consideration for the bridge loan, the Company issued 6,500,000 common shares to investment companies associated with the Lundin family. Note 30(a)

In November 2011, the Company repaid the bridge loan primarily using proceeds from the non-recourse loan facility with Natixis, WestLB and Mediocreval for the Helios ITA-3 and Nettuno solar power projects.

23. Financial liabilities

	Liabilities at fair value through profit or loss $'000	Other financial liabilities $'000	Derivative financial instruments $'000	Total $'000
At December 31, 2011				
Non-current financial liabilities:				
Borrowings	-	390,825	-	390,825
Derivative financial instruments	-	-	25,213	25,213
Total non-current financial liabilities	**-**	**390,825**	**25,213**	**416,038**
Current financial liabilities:				
Trade and other payables	-	8,200	-	8,200
Borrowings	-	16,030	-	16,030
Derivative financial instruments	-	-	5,462	5,462
Total current financial liabilities	**-**	**24,230**	**5,462**	**29,692**
Total financial liabilities	**-**	**415,055**	**30,675**	**445,730**
At December 31, 2010				
Non-current liabilities:				
Borrowings	-	260,868	-	260,868
Derivative financial instruments	2,066	-	6,764	8,830
Total non-current liabilities	**2,066**	**260,868**	**6,764**	**269,698**
Current liabilities:				
Trade and other payables	-	10,478	-	10,478
Borrowings	-	88,089	-	88,089
Derivative financial instruments	1,590	-	3,217	4,807
Total current financial liabilities	**1,590**	**98,567**	**3,217**	**103,374**
Total financial liabilities	**3,656**	**359,435**	**9,981**	**373,072**

24. Derivative financial instruments

	2011 $'000	2010 $'000
Derivative financial assets:		
Interest rate swap contracts (cash flow hedges)		
- Non-current portion	-	1,247
Total derivative financial assets	**-**	**1,247**
Derivative financial liabilities:		
Interest rate swap contracts (cash flow hedge)		
- Current portion	5,462	3,217
- Non-current portion	25,213	6,764
Interest rate swap contracts (fair value through profit or loss)		
- Current portion	-	1,590
- Non-current portion	-	2,066
Total derivative financial liabilities	**30,675**	**13,637**

The Group enters into interest rate swap contracts in order to hedge the risk of variations in the Group's cash flows as a result of floating interest rates on the Group's non-recourse project loans.

At December 31, 2011, the notional amount of the Group's interest rate swap contracts was $307.3 million (2010: $308.0 million). All interest rate swap contracts are denominated in Euros. The fair market value of the instruments at December 31, 2011, resulted in a net liability position of $30.7 million (2010: $12.4 million) due to a lower Euribor forecasted curve in comparison with projections in the hedge agreements. Refer to Note 10 for further details relating to fair value movements recognized during the year.

(a) Interest rate swap contracts classified as cash flow hedges

At December 31, 2011, all of the Group's derivative financial instruments were classified as cash flow hedges, qualifying for hedge accounting (Cassiopea, Helios ITA-3, Centauro, Helios ITA, Etrion Lazio, SVE and Nettuno), in accordance with IAS 39. In the prior year, the Group had three derivative financial instruments that qualified for hedge accounting (Cassiopea, Centauro and Etrion Lazio). As a result, any gain or loss associated with changes in fair values of these financial instruments was recognized within other comprehensive income. If any portion of the hedge is ineffective, this portion is transferred from the hedging reserve in equity to the profit or loss within finance income/costs.

(b) Interest rate swap contracts classified as fair value through profit or loss

At December 31, 2011, the Group had no derivative financial instruments classified as fair value through profit or loss. In the prior year, the Group had two derivative financial instruments classified as fair value through profit or loss (Helios ITA and SVE) as the criteria for hedge accounting, as outlined in IAS 39, was not met. As a result, any gain or loss associated with changes to the fair value of these financial instruments was recognized in the consolidated statement of comprehensive income within finance income/costs.

25. Provisions and other liabilities

	Decommissioning and site restoration $'000	Tax claims $'000	Right of use $'000	Investment tax credit $'000	Retirement obligations $'000	Total $'000
At January 1, 2010	**-**	**701**	**-**	**-**	**-**	**701**
Additions	621	71	664	-	-	1,356
Exchange differences	-	98	-	-	-	98
At December 31, 2010	**621**	**870**	**664**	**-**	**-**	**2,155**
Non-current	621	-	664	-	-	1,285
Current	-	870	-	-	-	870
At January 1, 2011	**621**	**870**	**664**	**-**	**-**	**2,155**
Additions	183	-	562	3,368	986	5,099
Change in estimate	(225)	-	-	-	-	(225)
Unwinding of discount	35	-	-	-	-	35
Utilization	-	-	(48)	(247)	-	(295)
Exchange differences	(41)	-	(18)	(220)	-	(279)
At December 31, 2011	**573**	**870**	**1,160**	**2,901**	**986**	**6,490**
Non-current	573	-	1,160	2,901	986	5,620
Current	-	870	-	-	-	870

Refer to Note 26 for further details relating to the Group's post retirement obligations.

(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 period of the life of solar power projects. Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning and reclamation alternatives, discount 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 is as follows:

	2011	2010
Discount rate	7.36%	5.17%
Inflation rate	2%	2%
Average expected life of solar power plant	20 years	20 years

The discount rate of 7.36% represents the government bond-yield rate in Italy for a period equivalent to the expected life of the solar power projects. This rate increased by 2.19% in 2011 due to an increase in the risk-free rate (pre-tax) on an Italian bond for 19.32 years (representing the approximate remaining life of the Group's solar power projects). 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. The average expected life of the solar power plants is 20 years based on the 20-year FiT contracts entered into with the Government for the sale of electricity.

(b) Tax claims

At December 31, 2010, the Group recognized a provision for tax claims of $0.9 million (2010: $0.9 million) relating to tax assessments received from the National Integrated Customs and Tax Administration Services ("SENIAT") in Venezuela associated with the Group's income tax filings for the years ended December 31, 2001 to 2004, which includes interest and penalties.

25. Provisions and other liabilities (continued)

(b) Tax claims (continued)

The Group has submitted compensation requests to the SENIAT in order to offset these amounts owing with input VAT outstanding from the tax authorities in Venezuela. At December 31, 2011, the Group had not received a response from the SENIAT. If the Venezuelan tax authority declines the Group's request, the Group will be liable for the entire amount of $0.9 million (2010: $0.9 million).

(c) Right of use

The Cassiopea solar power project is part of a larger solar park, previously built by SunPower. Cassiopea, being the first solar power project built in the solar park, 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 their right to use the substation. At December 31, 2010, the Company recognized $0.7 million as deferred income to be recognized in the consolidated statement of comprehensive income over the life of the credit facility associated with the Cassiopea solar power plant and $0.6 million as trade and other payables representing the amount expected to be paid to SunPower (representing the net present value of the amounts received). At the beginning of 2011, the amount previously owing to SunPower, of $0.6 million was reclassified to deferred income as this amount was no longer expected to be paid. In addition, during the year ended December 31, 2011, the Group recognized other income of $48,000 associated with the release of the deferred income over the life of the facility.

(d) Investment tax credit

In February 2010, the Group received, from the Italian tax authorities a Visco SUD investment tax credit, of $3.4 million (€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 tax expense for the given period. No amount was recognized in relation to this investment tax credit at December 31, 2010, as the solar power project was not yet operational and the ability to generate sufficient taxable income was uncertain. However, in 2011, once the SVE solar power project was connected to the electricity grid and started producing solar electricity, the Group recognized am investment tax credit of $3.4 million within trade and other receivables a corresponding amount within provisions and other liabilities as deferred income. During the year ended December 31, 2011, the Group utilized a portion of this investment tax credit, reducing the Group's current tax liabilities $0.2 million.

26. Retirement obligations

The Group operates a defined benefit pension plan in Switzerland that is managed through a private fund.

At December 31, 2011, the Group accounted for its Swiss pension plan as a defined benefit plan. In the prior year, it was accounted for as a defined contribution plan. At December 31, 2011, the Group recognized $1.0 million within other comprehensive income associated with actuarial losses, of which $0.2 million related to the year ended December 31, 2011 and $0.8 million related to the years ended December 31, 2010 and 2009.

26. Retirement obligations (continued)

The amount recognized in the balance sheet at December 31, 2011, associated with the Group's Swiss pension plan was determined as follows:

	2011 $'000
Present value of funded obligations	2,108
Fair value of plan assets	(1,122)
Net liability position	**986**
Experience adjustments on plan liabilities	68
Experience adjustments on plan assets	14

The movement in the defined benefit obligation over the year ended December 31, 2011, was as follows:

	2011 $'000
Defined benefit obligation at the beginning of the year	1,675
Current service cost	218
Employee contributions	149
Interest cost	46
Contributions paid by plan participants	48
Benefits paid	(243)
Actuarial loss	211
Exchange differences	4
Defined benefit obligation at the end of the year	**2,108**

The movement in the fair value of the plan assets over the year ended December 31, 2011, was as follows:

	2011 $'000
Fair value of plan assets at the beginning of the year	910
Expected return on plan assets	25
Employer contributions	242
Employee contributions	149
Contributions paid by plan participants	48
Benefits paid	(243)
Actuarial loss	(11)
Exchange differences	2
Fair value of plan assets at the end of the year	**1,122**

The actual return on the Group's plan assets for the year ended December 31, 2011, was $14,000.

The plan assets at December 31, 2011, were comprised of the following:

	2011	
	%	$'000
Cash and cash equivalents (including term deposit)	9.00%	101
Fixed interest rate instruments	50.60%	568
Equity instruments	28.50%	320
Real estate	11.90%	133
Total fair value of plan assets		**1,122**

Investments are well diversified, such that failure of any single investment would not have a material impact on the overall level of assets.

26. Retirement obligations (continued)

The amounts recognized in the income statement for the year ended December 31, 2011, was as follows:

	2011 $'000
Current service cost	218
Interest cost	46
Expected return on plan assets	(25)
Total expense recognized during the year	**239**

The expense associated with the Group's pension plan of $0.2 million (2010: $0.2 million) for the year ended December 31, 2011 was included within general and administrative expenses.

The principal actuarial assumptions used to estimate the Group's pension obligation at December 31, 2011, were as follows:

	2011 $'000
Discount rate	2.25%
Rate of inflation	1.00%
Expected rate of return on plan assets	2.50%
Future salary increases	1.00%
Future pension increases	0.00%
Retirement age	Men 65/Women 64

Assumptions regarding future mortality are set based on actuarial advice in accordance with 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 the based on the expected value of future annual inflation adjustments in Switzerland. The expected rate of return on plan assets takes into account the asset structure, maturities and reinvestment possibilities. 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 survivor's benefits.

Expected contributions to the Group's pension plan for the year ended December 31, 2012 are $0.2 million.

27. Trade and other payables

	2011 $'000	2010 $'000
Financial liabilities:		
Trade payables	1,899	2,601
Exchange right obligation Note 30(b)	5,176	5,345
Payable to Baripetrol	1,125	1,125
Other financial liabilities	-	1,407
Total financial liabilities[(1)] Note 23	**8,200**	**10,478**
Accrued expenses	3,301	24,198
Other trade and other payables	1,290	1,255
Total trade and other payables	**12,791**	**35,931**

Note:

(1) Financial liabilities exclude accrued expenses and other non-financial liabilities. Note 23

During 2009, the Group received $1.1 million from Baripetrol, a company in which the Group has a 5% interest, as an advance for dividends from operations during 2008. When the dividends are declared, this amount will be reclassified to income from the available for sale investment.

27. Trade and other payables (continued)

At December 31, 2011, the Group recognized accrued expenses of $3.3 million (2010: $24.2 million) of which $0.6 million (2010: $17.7 million) related to the construction of the Helios ITA-3 and Nettuno solar power projects (2010: the Etrion Lazio and SVE solar power projects).

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 carrying values of the Group's trade and other payables were denominated in the following currencies:

	2011 $'000	2010 $'000
United States dollars	1,185	1,969
Euros	10,397	32,157
Swiss francs	1,001	1,371
Canadian dollars	14	298
Venezuelan bolivars	194	136
Total trade and other payables	**12,791**	**35,931**

28. Operating leases

The Group has operating leases for the land associated with three of its solar power projects (Etrion Lazio, SVE and Nettuno) and for its offices in both Geneva and Italy. The minimum lease payments associated with the Group's operating leases are as follows:

	2011 $'000	2010 $'000
Next year	558	456
Years 2 through 5	1,216	1,111
Beyond 5 years	3,746	3,118
Total minimum lease payments	**5,520**	**4,685**

During the year ended December 31, 2011, the Group recognized $0.7 million (2010: $0.5 million) of operating lease expenses, of which $0.2 million (2010: $0.1 million) related to land leases included within operating expenses and $0.5 million (2010: $0.4 million) related to office leases included within general and administrative expenses. Note 6 and Note 7

The Group had no finance leases at December 31, 2011 and 2010.

29. 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 the return to stakeholders through optimization of the debt to equity balance.

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).

29. Financial risk management (continued)

(a) Capital risk management (continued)

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 debt to equity ratio and working capital requirements at the Group 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, the Group may raise additional funds through equity financing, obtain long-term debt or project-based financing or sell assets in order to manage debt levels or expand its presence within the renewable energy segment.

At December 31, 2011 and 2010, the debt to equity ratio was as follows:

	2011	**2010**
	$'000	**$'000**
Borrowings[1] Note 22	406,855	348,957
Non-recourse project loans[2] Note 22	(328,463)	(273,733)
Net borrowings	**78,392**	**75,224**
Unrestricted cash and cash equivalents Note 18	(10,004)	(4,748)
Net debt	**68,388**	**70,476**
Equity[3]	2,562	34,777
Net debt to equity ratio	**26.7**	**2.0**

Notes:

(1) Borrowings include non-current and current borrowings as shown in the consolidated balance sheet.

(2) Non-recourse project loans relate to the facilities obtained for the construction of the Group's solar power projects.

(3) Equity includes all capital and reserves of the Group as shown in the consolidated balance sheet.

The increase in the Group's debt to equity ratio from 2.0 at December 31, 2010 to 26.7 at December 31, 2011, was due to the net loss of $26.3 million incurred during the year and a net fair value loss of $13.3 million associated with the Group's interest rate swap contracts that qualified for hedge accounting offset by the $5.6 million equity-based financing fee associated with the bridge loan obtained from investment companies associated with the Lundin family.

(b) Financial risk management objectives

The Group is exposed to a variety of financial risks relating to its operations in Italy. These risks include market risk (including currency risk, cash flow interest rate 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 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.

Expressed in US$ unless otherwise stated

29. Financial risk management (continued)

(b) Financial risk management objectives (continued)

Market risk

The Group's activities expose it to the following market risks:

Interest rate risk

The Group is highly leveraged through financing at the project level, for the construction of its solar power projects, and at the corporate level. Further, the Group enters into non-recourse project loans, issued at variable interest rates with financial institutions that provide financing for 80% to 85% of the total project costs. In addition, in April 2011, the Group issued $77.4 million (€60 million) of 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 as these are floating rate instruments. The Group is not exposed to interest rate risks associated with the corporate bond as this is a fixed rate instrument.

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 (i.e., semi-annually), 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.

The following tables show the sensitivity analysis on the profit or loss, if interest rates on Euro-denominated borrowings had been 10 basis points ("bps") higher or lower with all other variables held constant, shown after hedging activities.

At December 31, 2011, the sensitivity analysis was as follows:

		+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**
Societe Generale and Dexia	41,216	(5)	-	5	-
BIIS, Societe Generale and WestLB	142,638	(24)	-	24	-
Barclays	52,402	(12)	-	12	-
Centrobanca	16,374	(4)	-	4	-
Natixis and WestLB	75,833	(14)	-	14	-
Total impact	**328,463**	**(59)**	**-**	**59**	**-**
Derivative financial instruments	30,675	-	2,226	-	(2,251)
Total net impact	**359,138**	**(59)**	**2,226**	**59**	**(2,251)**

Expressed in US$ unless otherwise stated

29. Financial risk management (continued)

(b) Financial risk management objectives (continued)

Market risk (continued)

Interest rate risk (continued)

At December 31, 2010, the sensitivity analysis was as follows:

		+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
Societe Generale and Dexia	46,728	(44)	-	44	-
BIIS, Societe Generale and WestLB	152,030	(136)	-	136	-
Barclays	55,226	(9)	-	9	-
Centrobanca	13,429	(6)	-	6	-
Natixis and WestLB	6,320	-	-	-	-
Lundin Services BV	75,224	(28)	-	28	-
Total impact	**348,957**	**(223)**	**-**	**223**	**-**
Derivative financial instruments	12,390	610	-	(779)	(1,652)
Total net impact	**361,347**	**387**	**-**	**(556)**	**(1,652)**

Foreign currency risk

The Group operates internationally (mainly in Europe) and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Swiss franc, United States dollar and Venezuelan bolivar. The Group's foreign currency exposure is due primarily to intercompany borrowings made in Euros 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 in foreign operations in order to hedge the risk of foreign currency variations.

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. Further, monetary assets and liabilities held in currencies other than the functional currencies of the individual subsidiaries are considered insignificant.

Price risk

The Group is not exposed to significant commodity price risk. The price of the solar energy generated by the Group's solar power projects and sold to the Italian state-owned utility company is set in long-term contracts based on a FiT.

However, the Group is exposed to price risks associated with the electricity sold at the spot rate and the value attributed to its available-for-sale investments. As the available-for-sale investments relate to unquoted equity investments, the Group has carried them at their expected recoverable amount. Note 16

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. 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 insignigicant.

The carrying amount of financial assets net of any 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. Note 16

29. Financial risk management (continued)

(b) Financial risk management objectives (continued)

Credit risk (continued)

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.

The credit quality of financial assets that are neither past due nor impaired at December 31, 2011 and 2010 can be assessed by reference to external credit ratings, if available, as follows:

	2011 $'000	2010 $'000
Cash and cash equivalents (including restricted cash):		
AA-	254	1,098
A+	5,697	6,550
A	3,889	3,285
BBB+	16,382	24,104
BBB	12,202	9,158
BBB-	1,039	403
Other	193	426
Total cash and cash equivalents (including restricted cash)	**39,656**	**45,024**
Derivative financial assets (interest rate swap contracts):		
A+	-	1,247
Derivative financial assets (interest rate swap contracts)	**-**	**1,247**
Total financial assets	**39,656**	**46,271**

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. Prudent liquidity risk management implies maintaining sufficient cash and availability to funds through an adequate amount of committed credit facilities and the ability to close out market positions. The Company's management monitors the Group's liquidity position taking into consideration the Group's debt financing plans, covenant compliance and compliance with internal balance sheet ratio targets.

29. Financial risk management (continued)

(b) Financial risk management objectives (continued)

Liquidity risk (continued)

The following table analyses the Group's financial liabilities based on the remaining period 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
At December 31, 2011						
Borrowings	406,855	486,744	28,047	122,779	335,918	486,744
Interest rate swap contracts (net)	30,675	46,631	8,834	29,324	8,473	46,631
Trade and other payables	13,608	13,608	13,608	-	-	13,608
Total financial liabilities	**451,138**	**546,984**	**50,488**	**152,104**	**344,392**	**546,984**
At December 31, 2010						
Borrowings	348,957	539,435	96,163	106,577	336,695	539,435
Interest rate swap contracts (net)	12,390	10,739	6,825	11,356	(7,442)	10,739
Trade and other payables	35,931	35,931	35,931	-	-	35,931
Total financial liabilities	**397,278**	**586,105**	**138,919**	**117,933**	**329,253**	**586,105**

(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, 2011 and 2010, the Group has no financial instruments classified as Level 1.

- Level 2: includes fair value measurements derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices). The fair value of financial instruments that are not traded in an active market are determined by using valuation techniques. These valuation techniques 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, 2011 and 2010, the Group had interest rate swap contracts classified as Level 2. The fair value of these interest rate swap contracts is 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 interest rate forward yield curve and an appropriate discount factor.

- Level 3: includes fair value measurements derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs).

29. Financial risk management (continued)

(c) Fair value estimation (continued)

The Group's assets and liabilities that were measured at fair value at December 31, 2011 are as follows:

	Level 2 $'000	Total $'000
Financial liabilities:		
Derivatives used for hedging	30,675	30,675
Total financial liabilities	**30,675**	**30,675**

At December 31, 2011, the Group had no financial instruments classified as Level 1 and 3.

The Group's assets and liabilities that were measured at fair value at December 31, 2010 are as follows:

	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets:			
Derivatives used for hedging	1,247	-	1,247
Available for sale financial assets	-	401	401
Total financial assets	**1,247**	**401**	**1,648**
Financial liabilities:			
Derivatives used for hedging	9,981	-	9,981
Financial assets at fair value through profit or loss:			
- Interest rate swap contracts	3,656	-	3,656
Total financial liabilities	**13,637**	**-**	**13,637**

At December 31, 2010, the Group had no financial instruments classified as Level 1.

30. 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 as defined by *IAS 24, Related Party Disclosures*. The Company's major shareholder is the Lundin family, held through various trusts, which collectively own approximately 25% of the Company's share capital. Prior to November 2010, when the Company obtained a secondary listing on the NASDAQ OMX, the largest shareholder of the Company was Lundin Petroleum BV, which held approximately 40% of the outstanding shares of the Company.

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 in this note. Details of transactions between the Group and other related parties are disclosed below.

All related party transactions are made on terms equivalent to those made on an arm's length basis.

30. Related parties (continued)

(a) Related party transactions

During the year ended December 31, 2011 and 2010, the Group entered into the following transactions with related parties:

	2011 $'000	2010 $'000
General and administrative expenses:		
Lundin Services BV	48	85
Lundin Petroleum SA	37	94
Finance costs:		
Lundin Services BV:		
- Interest expense associated with loan	1,493	1,569
- Transaction costs associated with loan	113	289
- Interest expense associated with corporate bond	666	-
- Transaction costs associated with corporate bond	15	-
Lundin family:		
- Interest expense associated with equity-based financing fee(1)	2,483	-
- Early redemption fee associated with equity-based financing fee(1)	2,833	-
- Interest expense associated with corporate bond	1,315	-
- Transaction costs associated with corporate bond	30	-
Total transactions with related parties	**9,033**	**2,037**

Note:

(1) $2.1 million of the interest expense and early redemption fee associated with the bridge loan from investment companies associated with the Lundin family was capitalized within property, plant and equipment, up to the date the solar power projects (Helios ITA-3 and Nettuno) were connected to the electricity grid.

At December 31, 2011 and 2010, the amounts outstanding to related parties were as follows:

	2011 $'000	2010 $'000
Current liabilities:		
Lundin Services BV:		
- Loan facility	-	75,224
- General and administrative expenses	3	32
- Participation in corporate bond	177	-
Lundin Petroleum SA	-	6
Lundin family (participation in corporate bond)	349	-
Total current liabilities	**529**	**75,262**
Non-current liabilities:		
Lundin Services BV (participation in corporate bond)	9,752	-
Lundin family (participation in corporate bond)	19,248	-
Total non-current liabilities	**29,000**	**-**
Total amounts outstanding to related parties	**29,529**	**75,262**

There were no amounts outstanding from related parties at December 31, 2011 and 2010.

Lundin Services BV

The Group receives professional services (i.e., technical and legal) from Lundin Services BV, a wholly-owned subsidiary of Lundin Petroleum AB. The Chief Executive Officer of Lundin Petroleum AB is a Director of the Company.

In addition, in April 2010, the Company entered into a loan agreement with Lundin Services BV to draw up to $77.4 million (€60.0 million). This loan was fully repaid in May 2011. Note 22

30. Related parties (continued)

(a) Related party transactions (continued)

Lundin Services BV (continued)

In April 2011, Lundin Services BV subscribed for $11.5 million (€8.9 million) of the corporate bonds issued by the Company that bear an annual interest rate of 9%. In April and May of 2011, Lundin Services BV sold $1.7 million (€1.3 million) of the corporate bonds, reducing their position to $9.8 million (€7.6 million) at December 31, 2011. Note 22

Lundin Petroleum SA

The Group receives professional services (i.e., administrative support) from Lundin Petroleum SA, a wholly-owned subsidiary of Lundin Petroleum AB.

Lundin family

In order to accelerate construction of the Helios ITA-3 and Nettuno solar power projects, in June 2011, the Company obtained a $36.1 million (€28.0 million) bridge loan from investment companies associated with the Lundin family that matured in June 2012. In consideration for the bridge loan, the Company issued 6,500,000 common shares of the Company to investment companies associated with the Lundin family. The fair value of the shares issued of $5.3 million was accounted for as prepaid interest and an early redemption fee amortized over the life of the bridge loan. In November 2011, the bridge loan was fully repaid. During the year ended December 31, 2011, the Group recognized interest expense of $2.5 million and an early redemption fee of $2.8 million within finance costs, of which $2.1 million was capitalized within property plant and equipment, up to the date the solar power projects were connected to the electricity grid. Note 10, Note 14, Note 19 and Note 22

In addition, in April 2011, the Lundin family subscribed for $19.4 million (€15.0 million) of the corporate bonds issued by the Company that bear an annual interest rate of 9%. Note 22

(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.

The remuneration of key management personnel during the year ended December 31, 2011 and 2010 were as follows:

	2011 $'000	2010 $'000
Salaries and short-term benefits, including bonuses	1,132	1,373
Pension costs	142	122
Board of Directors fees non-executive directors)	240	240
Share-based payment	706	5,162
Termination benefits	-	425
Total remuneration to key management personnel	**2,220**	**7,322**

At December 31, 2011 and 2010, the amounts outstanding to key management personnel were as follows:

	2011 $'000	2010 $'000
Mr. Northland's exchange right (guaranteed floor)	5,176	5,345
Board of Directors fees (non-executive directors)	60	60
Other (bonus payable and pension costs payable)	278	704
Total amounts outstanding to key management personnel	**5,514**	**6,109**

30. Related parties (continued)

(b) Key management personnel (continued)

There were no amounts outstanding from key management personnel at December 31, 2011 and 2010.

Mr. Northland's exchange right and the Shareholders Agreement of SRH

Carried interest on the initial investments

Upon the acquisition of SRH in September 2009, the Company entered into a Shareholders Agreement with Mr. Northland, who holds the remaining 10% equity interest in SRH. The Agreement provides for any additional funds required by SRH in order to fund its operations up to €17.7 million to be advanced by the Company, by way of loan without any fixed term of repayment. In the event of any repayment of the principal or interest under such loans, SRH is required to pay Mr. Northland a proportionate share of such repayment based on his equity interest in SRH. At December 31, 2011 and 2010, the Group had not repaid any of the principal or interest and no expense had been recognized in relation to this carried interest.

Carried interest on the additional investments

The Agreement also requires the Company to issue loans or shares to Mr. Northland for an amount up to €8.0 million in order for Mr. Northland to maintain his 10% equity interest in any future equity investments made by the Company into SRH. During the year ended December 31, 2011, a non-cash share-based payment expense of $0.4 million (2010: expense $4.8 million) was recognized in relation to this arrangement. Note 20

Guaranteed floor

The Agreement also provides Mr. Northland with the right to exchange his 10% equity interest in SRH, for a period of five years, for an equivalent fair value of shares in the Company. In the event of a change of control of the Company or SRH or the termination of Mr. Northland's employment contract other than for justified cause: (a) Mr. Northland can elect to be paid the fair value of his equity interest in SRH in cash; and (b) if the Company has not then invested an aggregate of €100 million in SRH, the fair value of Mr. Northland's equity interest in SRH will have a guaranteed floor on the exchange of €4.0 million. At December 31, 2011, the Company had recognized a liability related to this exchange right of $5.2 million (2010: $5.3 million). If Mr. Northland's 10% equity interest in the net equity of SRH surpasses the €4.0 million guaranteed floor, the excess will be recognized as a non-controlling interest. Note 27

31. Commitments

At December 31, 2011, the Group had no committed capital expenditure outstanding. At December 31, 2010, the Group had $6.8 million of committed capital expenditure outstanding relating to the Helios ITA-3 solar power project, representing the remaining equity contribution at December 31, 2010 expected to be paid in 2011 associated with the EPC contract. The total value of the EPC contract outstanding at December 31, 2010 was $45.6 million (€34 million).

In addition, at December 31, 2010, the Group had entered into share purchase agreements with local developers of renewable energy projects in Italy, pursuant to which, subject to certain conditions, the local developers would undertake to sell the Group one or more project companies following a contribution in kind of permitted projects for the construction of the solar power projects. Due to the new decrees approved by the Italian government in 2011, affecting the Group's development pipeline in Italy at December 31, 2011, the Group no longer had any commitments outstanding associated with these agreements. Note 8(b)

GLOSSARY

$	United States dollar(s).
€	Euro(s), the official currency of the European Union.
ABB	ABB S.p.A. (“ABB”), the Swiss power and automation technology group.
Agreement	Shareholders’ Agreement entered into by Etrion and Mr. Northland as shareholders of SRH.
Baripetrol	Baripetrol, S.A., an oil and gas company owned 5% by PFC.
bps	Basis points, a unit of measure to describe the percentage change in interest rates.
CAD$	Canadian dollar(s).
CGUs	Cash generating units are the smallest identifiable group of assets that generate cash flows.
Company or Etrion	Etrion Corporation, a corporation continued under the laws of British Columbia.
DC&P	Disclosure controls and procedures as defined in National Instrument 52-109 *Certification of Disclosures in Issuers Annual and Interim Filings.*
EBITDA	Earnings before interest, tax depreciation and amortization.
EPC	Engineering, procurement and construction contract.
FiT	Feed-in-Tariff, a premium price paid for solar electricity under long-term contacts.
GSE	Gestore Servizi Energetici, an Italian state-owned company.
Group	Etrion together with its subsidiaries.
IAS 19	International Accounting Standard 19 (revised), Employee Benefits.
IAS 24	International Accounting Standard 24 (revised), Related Party Disclosures.
IAS 39	International Accounting Standard 39, Financial Instruments: Recognition and Measurement.
ICFR	Internal controls over financial reporting as defined in National Instrument 52-109 *Certification of Disclosures in Issuers Annual and Interim Filings.*
IFRS	International Financial Reporting Standards as issued by the International Accounting Standards Board and the International Financial Reporting Standards Interpretation.
IFRS 3	International Financial Reporting Standard 3, Business Combinations.
IFRS 9	International Financial Reporting Standard 9, Financial Instruments.
IFRS 10	International Financial Reporting Standard 10, Consolidated Financial Statements.
IFRS 13	International Financial Reporting Standard 13, Fair Value Measurement.
kWh	Kilowatt-hour(s), a unit of electricity used continuously for one hour of time.
Market Price	Spot market price received by the Italian local utilities, Enel S.p.A. and Terna S.p.A.
MD&A	Management’s Discussion and Analysis for the year ended December 31, 2011.
MW	Megawatt(s), a unit for measuring the capacity of power plants on a direct current basis also referred to as megawatt- peak (MWp).
MWh	Megawatt-hour(s), a unit of electricity used continuously for one hour of time.
Mr. Northland	Marco Antonio Northland, the Chief Executive Officer and Director of Etrion.
NASDAQ OMX	NASDAQ OMX Exchange in Sweden.
O&M	Operations and maintenance contract.
PetroCumarebo	Petrocumarebo, S.A., an oil and gas company owned 40% by PFC.
PFC	PFC Oil & Gas, C.A., a wholly-owned subsidiary of Etrion.
Phoenix	Phoenix Solar, a German PV system integrator.
PPAs	Power purchase agreements.
PV	Photovoltaic, a method of generating electricity by converting solar irradiation into electricity.
SRH	Solar Resources Holding Sarl, a 90-owned owned subsidiary of Etrion.
SENIAT	National Integrated Customs and Tax Administration Services in Venezuela.
Solon	Solon S.p.A., a German solar panel manufacturer and installer.
SunRay	SunRay Renewable Energy Ltd a subsidiary of SunPower Corporation.
SunPower	SunPower Corporation, the parent company of SunRay Renewable Energy Ltd.
TSX	Toronto Stock Exchange in Canada.
VAT	Value added tax.

BOARD AND EXECUTIVE MANAGEMENT

BOARD OF DIRECTORS

Ian H. Lundin
Chairman

Marco A. Northland
Chief Executive Officer and Director

Ashley Heppenstall
Director

John H. Craig
Director

Aksel Azrac
Director

EXECUTIVE MANAGEMENT

Marco A. Northland
Chief Executive Officer and Director

Cheryl Eversden
Chief Financial Officer

CORPORATE INFORMATION

AUDITORS

PricewaterhouseCoopers SA
Geneva, Switzerland

BANKS

HSBC Bank
Toronto, Canada

LEGAL COUNSEL

Norton Rose Canada LLP
Toronto, Canada

REGISTRAR AND TRANSFER AGENT

Computershare
Vancouver, Canada

EXCHANGE LISTINGS

Primary – Toronto Stock Exchange (Canada)
Ticker symbol "ETX"

Secondary – NASDAQ OMX Stockholm exchange (Sweden)
Ticker symbol "ETX"

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