etrion

Etrion Corporation

ANNUAL REPORT 2009

etrion

Contents

Chief Executive's Letter 1

Management Discussion and Analysis 3

Auditors' Report 27

Consolidated Financial Statements 28

Notes to Consolidated Financial Statements 32

Board and Executive Management 60

Corporate Information 61

Etrion is focused on building, owning and operating global electrical power plants based on renewable sources of energy, including solar photovoltaic, solar thermal and wind.

CHIEF EXECUTIVE'S LETTER

Dear Shareholders,

Welcome to the new Etrion. While we are still an early stage company, I am delighted to share with you below our significant accomplishments over the last year.

Reinvention

In 2009, we re-focused the business and changed the name of the company in order to pursue attractive investment opportunities in the renewable energy sector in Europe. Since the acquisition of the renewable business in September 2009, we have already announced two additional acquisitions in the sector and have become one of the few publicly-traded solar independent power producers.

Progress

Over the last year, we made substantial progress with our first market entry into Italy. We specifically chose Italy because it enjoys some of the best solar irradiation in Europe, as well as one of the highest subsidies or feed-in-tariffs (FiTs) for renewable power generation. Also, Italy already has one of the highest retail electricity rates in Europe. We therefore expect Italy to be among the first countries in Europe to reach "grid parity," the point at which renewable electricity is competitive with traditional power prices.

We started with four employees in the beginning of 2009 and now have almost twenty employees between Geneva and Rome. We are building a great team of highly motivated, uniquely qualified individuals. I am indebted to them for their dedication.

Goals

We currently have 4 MW under construction, 6 MW in operation, 10 MW permitted for construction this year and more than 150 MW in pipeline in various stage of permitting. Our goal for 2010 is to continue to grow organically and through acquisitions and to exit the year with at least 30 MW in operation or under construction and substantial pipeline for development in 2011 and beyond.

Financing Growth

We are in a very fortunate position to have strong shareholders in the Lundin Group. We recently secured a bridge loan from our major shareholder, Lundin Petroleum, which will allow us to accelerate our growth and reach critical mass more quickly.

We also plan to dual-list the company on the NASDAQ OMX exchange in Sweden this year in order to access more investors interested in the renewable energy downstream power generation sector. The Swedish market in particular has shown a strong interest in renewable investments, and several Lundin Group companies have been well received in Stockholm.

Legacy

We continue to own the legacy oil and gas assets acquired by Etrion's predecessor company, PetroFalcon, and we look forward to monetizing these assets either through collecting dividends or opportunistically divesting the equity interests. These assets require no capital expenditures, minimal management time and represent only upside for Etrion's shareholders.

Vision

The renewable industry is a high growth sector, and Etrion is best placed in the downstream side of the business with attractive, predictable returns.

We intend to build, own and operate global electricity power plants based on renewable sources of energy. In the near-term, we will focus on countries with government incentives to build critical mass in key markets like Italy. Long-term, we will adapt our business model to focus on power purchase agreements (PPAs) with industrial clients. Long-term growth in the renewable industry will be driven by opportunities in markets with high retail electricity prices and attractive solar irradiation or wind speeds.

Summary

We are operating in a unique environment with attractive renewable subsidies in Italy. We have a unique capital structure with the availability of non-recourse project finance loans and our shareholder bridge loan. We have a solid track record in a short amount of time with operating assets, assets under construction and a large pipeline to develop. And finally, we have a strong management team that has built some of the largest wind and solar projects in Europe.

I am excited about 2010 and thank you for supporting our vision. I believe in our mission, goals and objectives. I believe we have the right combination of resources and opportunities to build a company with sustainable growth. We look forward to adding shareholder value in the months ahead.

"Marco A. Northland", CEO and Director
Marco A. Northland

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. 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, 2009, attached hereto and Etrion's Amended and Restated Annual Information Form for the year ended December 31, 2009, available on the SEDAR website at www.sedar.com.

The following management discussion and analysis ("MD&A") is prepared as of March 15, 2010. This MD&A, as provided by the management of Etrion Corporation, formerly PetroFalcon Corporation, ("Etrion", the "Company" or "we"), should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2009 and 2008. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Estimates and forward-looking information are based on assumptions of future events and actual results may vary from these estimates; see "Cautionary Statement Regarding Forward-Looking Information". Unless otherwise stated herein, all dollar amounts are expressed in US dollars ("USD").

On September 11, 2009, Etrion completed the acquisition of 90% of the outstanding shares of Solar Resources Holding, Sarl ("SRH"), a private company developing a pipeline of renewable energy projects. On October 20, 2009, the Company's subsidiary, SRH, purchased the outstanding shares of SVE, Srl ("SVE"), an Italian entity that owns the required permits for the construction of four solar power plants in southern Italy with a total generating capacity of four megawatts ("MW"). The Company's audited consolidated financial statements for the year ended December 31, 2009, reflect the acquisition of such interests in SRH and SVE.

In 2007, as a result of significant volatility in the spread between the official rate and the implied market rate in Venezuela for Bolivars ("Bs"), management concluded that the method of translation from Bs to USD using the official rate was no longer appropriate. In addition, effective January 1, 2008, the currency unit of the monetary system of Venezuela dropped three zeros, and all amounts are now denominated in a new smaller scale of Bs. Accordingly, for the years ended December 31, 2009 and 2008, the Bolivar balances were translated at implied market rates of 5.97 Bs/USD and 5.70 Bs/USD, respectively.

For the purposes of calculating the production from the Venezuelan mixed companies in which the Company has interests (the "Mixed Companies"), natural gas has been converted to a barrel of oil equivalent ("boe") using a conversion rate of six thousand cubic feet ("mcf") equal to one barrel (6:1) based on an energy equivalency conversion method primarily applicable at the burner tip and which does not represent a value equivalency at the wellhead. This conversion to boe may be misleading, particularly if used in isolation.

Cautionary Statement Regarding Forward-Looking Information

Forward-looking information and statements are included throughout this MD&A and include, but are not limited to, statements with respect to: the financing and development of Etrion's initial solar projects in Italy; the timing of the expected sales of electricity therefrom; the Mixed Companies' oil and natural gas production; general and administrative expenses; planned growth and development; contractual obligations; future plans, objectives and results. 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 receipt or timing of required permits to obtain and construct renewable energy projects and to begin selling electricity therefrom; uncertainties with respect to the availability of suitable additional renewable energy projects; the possibility of project cost overruns or unanticipated costs and expenses, uncertainties relating to the availability and costs of financing needed in the future; possible changes in the regulatory regimes in the jurisdictions where the Company proposes to develop renewable energy projects; being a minority partner in the Mixed Companies; the uncertainty of timing and amount of dividends from the Mixed Companies; the possible imposition of higher royalties and income taxes; 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; volatility in electricity and oil and gas prices; interest rates; opportunities available to or pursued by the Company; and other factors, many of which are beyond our control.

All such forward-looking information is based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe 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 from them. 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.

Etrion's Business Environment

Description of Business

Etrion is focused on building, owning and operating electrical power plants based on renewable sources of energy, including solar photovoltaic, solar thermal and wind.

Pursuant to approvals given by the shareholders of the Company at its annual and special meeting of shareholders held on September 10, 2009, the Company has continued its incorporation from Alberta to British Columbia and changed its name from "PetroFalcon Corporation" to "Etrion Corporation". The Company has moved its operational base to Europe to seek additional opportunities in the renewable energy sector, while maintaining its existing oil and gas assets in Venezuela.

Acquisition of Solar Resources Holding, Sarl ("SRH")

On September 11, 2009, Etrion completed the acquisition of 90% of the outstanding shares of SRH, a private company developing a pipeline of renewable energy projects, from Lorito Holdings Srl ("Lorito") and other parties. Lorito is an investment company wholly owned by a Lundin family trust and holds 24% of the shares of Lundin Petroleum AB ("Lundin Petroleum"), which indirectly owned 45% of Etrion at the date of acquisition.

Etrion acquired 90% of SRH from the previous shareholders at cost for €2.3 million ($3.26 million) in cash. Etrion also advanced a loan to SRH in the amount of €1.35 million ($1.91 million) in order to repay an equivalent amount advanced to SRH by Lorito. The remaining 10% of SRH continues to be held by Marco Northland ("Northland"), who was appointed as Chief Executive Officer of Etrion at closing.

SRH will initially focus on solar energy projects in Europe utilizing government guaranteed premium electricity rates and non-recourse bank financing.

Shareholders Agreement

At closing of the SRH acquisition, Etrion and Northland entered into a shareholders' agreement (the "Shareholders Agreement") to govern their rights and obligations as the shareholders of SRH. Under the Shareholders Agreement, Northland will maintain his 10% equity ownership of SRH without putting up additional capital until such time as Etrion has advanced an aggregate of €17,690,310 to SRH. Northland also has the right to maintain his 10% equity ownership through purchases of SRH shares financed by loans from Etrion ("Loan Shares") or by way of "phantom shares" that do not require Northland to invest additional capital but are offset by notional loans from Etrion ("Carry Shares") until such time as Etrion has invested an additional €80,000,000 in SRH.

Northland also has the right under the Shareholders Agreement, for a period of five years, to exchange some or all of his shares of SRH, including Loan Shares and Carry Shares, for Etrion shares with a value based on the increase in value of SRH from the date of the Shareholders Agreement to the date of exchange and net of amounts owed by Northland in respect of the Loan Shares and Carry Shares. The value of SRH for this purpose will be based on the market capitalization of the Company less the value of its oil and gas investments and subject to certain other adjustments related to the Company's non-SRH debt and cash on hand. Any SRH shares held by Northland that have not been exchanged for Etrion shares at the end of the five-year period will automatically be exchanged on the same basis. See "Related Party Transactions".

Acquisition of SVE, Srl ("SVE")

On October 20, 2009, the Company's subsidiary, SRH, purchased 100% of the outstanding shares of an Italian entity, SVE, for an aggregate purchase price of €1.3 million (equivalent to $1.9 million at the date of acquisition). SVE owns the required permits for the construction of four solar power plants in the Puglia region of southern Italy with a total generating capacity of four MW. A contingent consideration was recognized at the time of the acquisition for €180,000 ($266,400) related to additional payments due upon connection of the plants to the Italian electricity grid.

On November 4, 2009, SVE signed a credit facility agreement with an Italian bank, Centrobanca, to fund the construction of the four solar power plants. The non-recourse loan provided is for €17.2 million or 83% of the anticipated cost of the project.

A turnkey engineering, procurement and construction ("EPC") contract was signed with SunPower Corp. following the acquisition. The construction of the solar power plants is scheduled to be completed in the third quarter of 2010.

On March 5, 2010, following the "Visco Sud" tax credit approval by the Italian tax authorities, SRH paid an additional €240,000 according to the SVE share purchase agreement. SVE's Visco Sud tax credit is €4.1 million and does not expire.

Oil and Gas Investments

Etrion continues to own oil and gas investments in Venezuela through its wholly-owned Venezuelan subsidiary, PFC Oil and Gas, C.A., formerly Vinccler Oil and Gas, C.A. ("PFC Venezuela"), which owns 40% of PetroCumarebo, S.A. ("PetroCumarebo") and 5% of Baripetrol, S.A. ("Baripetrol").

PetroCumarebo holds all of the operating rights to the East and West Falcon blocks, an area of approximately 838,000 acres in north-western Venezuela. The oil and gas produced from the East and West Falcon blocks is sold to the state-owned oil and gas company, Petróleos de Venezuela, S.A. ("PDVSA"), and is either trucked or shipped by pipelines to the Paraguana Refinery Complex.

Baripetrol holds all of the operating rights to the Colon Block, an area of approximately 297,000 acres in western Venezuela. The oil and gas produced from the Colon Block is sold to PDVSA and shipped by pipelines to PDVSA's distribution network.

PDVSA has announced its intention to decrease the number of mixed companies by merging individual mixed companies that have common characteristics, such as location and the types of crude oil produced, into new, larger mixed companies. PDVSA will maintain a 60% participation in these new mixed companies, and the private parties will negotiate their pro forma interest based on each private party's estimated fair value derived from the potential future dividends from the mixed companies. It is not yet known whether this consolidation process will impact PetroCumarebo or Baripetrol.

There was a severe decline in global crude oil prices during the second half of 2008, and oil prices remained at lower levels in the first and second quarters of 2009, decreasing the oil prices received by the Mixed Companies. During the third and fourth quarters of 2009, oil prices made a significant recovery, but the stability of future oil markets is subject to a variety of factors including political considerations, worldwide economic conditions and actions of the Organization of Petroleum Exporting Countries and other major oil producing countries. It is very difficult to correctly project future prices in the current economic environment, and the Company anticipates a significant level of volatility over the next 12 to 24 months.

The Company's management performed impairment tests for its investments in oil and gas companies as at September 30, 2009, and identified an impairment loss of $44.0 million from the investments in PetroCumarebo and Baripetrol when comparing carrying value to the fair value. See "Critical Accounting Policies and Estimates".

TSX Listing Category

On February 23, 2010, the Toronto Stock Exchange ("TSX") announced a review of Etrion's listing status as a result of the Company's change of business focus from oil and gas activities to renewable energy. The TSX review arose in connection with the Company's proposed application for a second listing on the NASDAQ OMX exchange in Sweden.

As a result of the acquisition of its solar power generation business in Europe, the Company is no longer considered by the TSX to be an oil and gas company and will have 90 days to demonstrate compliance with the TSX original listing requirements for an industrial issuer.

Financial and Operational Review

The following table contains selected consolidated financial information for Etrion over the last three years:

	2009 $	2008 $	2007 $
Revenue	Nil	Nil	Nil
Net loss	(59,057,078)	(23,190,057)	(3,587,296)
Basic and diluted loss per share	(0.37)	(0.15)	(0.04)
Net loss	(59,057,078)	(23,190,057)	(3,587,296)
Items not affecting cash			
Depreciation and amortization	220,021	112,964	123,938
Guarantee fee	-	7,878,842	-
Impairment loss from investments in oil and gas companies	44,046,991	6,824,974	-
Loss on derivative financial instruments	467,093	-	-
Bad debt expense	-	349,664	-
Write-off of other investments	-	350,000	-
Non-cash compensation expense	5,449,920	-	-
Stock-based compensation	1,423,007	797,365	2,046,665
Changes in working capital	7,115,031	(1,368,973)	4,370,163
Operating cash flow	(335,015)	(8,245,221)	2,953,470
Total assets	43,379,475	88,898,638	58,347,486
Total long-term liabilities	3,676,812	494,564	-
Dividends declared	-	-	-

Etrion's financial results

For the year ended December 31, 2009, the Company reported a net loss of $59.1 million (loss per share of $0.37) compared to a net loss of $23.2 million (loss per share of $0.15) for the year ended December 31, 2008.

The net results for the year ended December 31, 2009, were adversely affected by the following non-cash items that had no impact on cash flow: (a) the recognition of a $44.0 million impairment loss in the carrying value of the oil and gas investments in Venezuela; (b) the recognition of $5.5 million in compensation expense related to Northland's right to exchange his equity interest in SRH for an equivalent fair value of shares in Etrion; and (c) the recognition of $0.9 million in compensation expense related to Northland's right to have his interest carried in the additional investments in SRH. See "Related Party Transactions".

Under the cost method of accounting, Etrion does not recognize its share of revenues, expenses, assets or liabilities from PetroCumarebo or Baripetrol and instead only recognizes income from these investments to the extent that dividends are received from PetroCumarebo or Baripetrol. As a result, Etrion had no revenues for the years ended December 31, 2009 and 2008. See "Critical Accounting Policies and Estimates".

On August 14, 2009, the Company received $1.1 million from Baripetrol as an advance of dividends for operations during 2008. This amount has been reflected as a liability until such time as the dividends are declared and paid. Based on information provided by PDVSA, the Company believes that it is entitled to receive an additional $2.1 million in dividends from Baripetrol in respect of 2008 operations, although the timing of such payments is uncertain.

During the year ended December 31, 2008, Etrion received $2.9 million in dividends from Baripetrol for operations between January and December 2007. The $2.9 million in dividends was credited against the historical cost of the investment instead of being recognized as income during the year ended December 31, 2008, because the dividends were related to pre-acquisition earnings.

Etrion's financial position

As at December 31, 2009, Etrion had $23.4 million in cash and short-term deposits and working capital of $15.0 million. The non-recourse loan obtained by the Italian subsidiary, SVE, matures at various dates beyond 2011, with approximately €1.7 million repayable in the period 2011 to 2013. The Company does not expect cash calls from its oil and gas investments in Venezuela for 2010 capital expenditures. However, the Company anticipates that it will make capital investments related to renewable energy projects in 2010. See "2010 Capital Investments Related to Renewable Energy Projects".

Summary of Quarterly Results

The following table contains selected consolidated financial information for Etrion over the last eight quarters:

	2009					2008				
($000s, except per share amounts)	**Q4**	**Q3**	**Q2**	**Q1**	**Total**	**Q4**	**Q3**	**Q2**	**Q1**	**Total**
Revenue	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Net loss	(5,084)	(50,944)	(1,477)	(1,552)	(59,057)	(9,982)	(7,121)	(4,412)	(1,675)	(23,190)
Loss per share basic and diluted	(0.03)	(0.32)	(0.01)	(0.01)	(0.37)	(0.07)	(0.04)	(0.03)	(0.01)	(0.15)

Capital Investments Related to Renewable Energy Projects

The Company plans to make capital investments in 2010 to build ground-based solar photovoltaic power plants. Project financing for the four MW currently under construction in Italy was secured through a non-recourse loan, and no additional capital contributions are expected.

The following table summarizes the total budgeted 2010 capital expenditures for the current development pipeline:

(€million)	Status	Total Project Cost	Equity	Non-Recourse Bank Financing	% Financing
Already financed:					
4.0 MW	Construction	20.7	3.5	17.2	83%
Sub-total		**20.7**	**3.5**	**17.2**	
To be financed:					
1.6 MW	SPA signed	6.2	1.2	5.0	80%
3.7 MW	SPA signed	13.9	2.8	11.1	80%
Sub-total		**20.1**	**4.0**	**16.1**	
Total		**€40.8**	**€7.5**	**€33.3**	

Note: Etrion plans to finance the construction of its projects with a combination of cash on hand and non-recourse loans. 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 Company. SPA means share purchase agreement.

Four Megawatt Puglia Project

On October 20, 2009, Etrion purchased the outstanding shares of an Italian company, SVE, which owns the required permits for the construction of four solar power plants in southern Italy with a total generating capacity of four MW. During the fourth quarter of 2009, the Company secured the project finance debt required to begin construction.

The estimated total project cost is €20.7 million ($30.3 million), including financing cost. Of this amount, Etrion's total equity contribution to the project was €3.5 million ($5.1 million), which accounts for approximately 17% of the total cost.

According to the EPC contract signed between SVE and SunPower, SVE is to pay €4.2 million per MW for full turn-key construction of the four plants in Puglia. The first payment of 15% of the cost to build three out of the four plants was made in February 2010. Additional payments are due upon reaching specified milestones in the construction program. The project is scheduled to be finished by July 2010 and grid connected by September 2010.

On February 15, 2010, SVE obtained approval for the "Visco Sud" tax credit from the Italian tax authorities. According to local Italian income tax law, companies that own solar energy projects with installed capacity of up to 1 MW may apply for a tax credit equal to 20% of the project cost. SVE's Visco Sud tax credit is €4.1 million and may be credited against income taxes arising from future taxable income following connection of the solar power plants to the Italian electricity grid. The tax credit does not expire.

Development Pipeline and Fees

The Company enters into share purchase agreements with local developers of renewable energy projects in Europe pursuant to which, subject to certain conditions, a developer agrees to sell Etrion one or more project companies following the contribution in kind of permitted projects.

As at December 31, 2009, the Company had entered into two agreements with Italian developers for the acquisition of 100% of the outstanding shares of one or more project companies for a total purchase price of €1.3 million ($1.9 million),

and the Company had advanced to the potential sellers a total of €40,000 ($58,000). According to the terms and conditions of the share purchase agreements, the advance payments will be deducted from the total purchase price at closing.

The two agreements signed relate to project companies with 5.3 MW of permitted projects for the construction of solar power plants in the region of Lazio, Italy. If Etrion successfully completes the due diligence and the seller meets the condition precedents for the share purchase agreements, the total project cost, including the purchase price and EPC contract cost for the 5.3 MW, is expected to be €20.1 million, for an average cost of €3.8 million per MW. Upon closing of the acquisition, the Company intends to finance an average of 80% of the total project cost with non-recourse project loans.

Mixed Company 2009 Production

The following tables outline the gross production for each of PetroCumarebo and Baripetrol in which Etrion holds a 40% and 5% interest, respectively.

***PetroCumarebo Production Summary*:**

	Year ended Dec 31, 2009	Year ended Dec 31, 2008
Average daily production		
Oil - bbls/d	634	896
Natural gas - mcf/d	10,152	14,030
Total – boe/d	**2,326**	**3,234**

Note: Production is shown before royalties of 33.33%. Etrion owns 40% of PetroCumarebo.

As detailed in the table above, PetroCumarebo's average gross production from both the East and West Falcon blocks for the year ended December 31, 2009, was 2,326 boe/d. For the comparable period ended December 31, 2008, PetroCumarebo's average gross production was 3,234 boe/d. The production decrease is due to natural decline, increased water production, paraffin, compressor mechanical problems and lack of well maintenance.

PetroCumarebo produces light sweet crude oil that sells at a premium to most of the oil produced in Venezuela. PetroCumarebo's oil production from the East and West Falcon blocks is delivered to PDVSA at a weighted average price of approximately 100% of the price of West Texas Intermediate ("WTI") crude oil.

Payment from PDVSA to PetroCumarebo is 100% in US dollars for crude oil and natural gas liquids and 100% in Bolivars for methane gas. Potential dividends from PetroCumarebo to Etrion will be in US dollars and are at the discretion of the shareholders of PetroCumarebo, depending on net and available profits. Since inception of PetroCumarebo on April 1, 2006, Etrion has not received any dividends for the Company's 40% interest.

Baripetrol Production Summary:

	Year ended Dec 31, 2009	Year ended Dec 31, 2008
Average daily production		
Oil - bbls/d	6,740	9,121
Natural gas - mcf/d	6,736	5,908
Total – boe/d	**7,863**	**10,106**

Note: Production is shown before royalties of 33.33%. Etrion owns 5% of Baripetrol.

As detailed in the table above, Baripetrol's average gross production from the Colon Block for the year ended December 31, 2009, was 7,863 boe/d. For the comparable period ended December 31, 2008, Baripetrol's average gross production was

10,106 boe/d. Production has declined due to mechanical problems, increased water production and lack of well maintenance.

Baripetrol's oil production is delivered to PDVSA at an average price that is approximately 92% of WTI.

Payment from PDVSA to Baripetrol is 100% in US dollars for crude oil and natural gas liquids and 100% in Bolivars for methane gas. Dividends from Baripetrol to Etrion are paid in US dollars and are at the discretion of the shareholders of Baripetrol, depending on net and available profits. During the year ended December 31, 2008, Etrion received $2.9 million in dividends from Baripetrol for operations between January and December 2007. During the year ended December 31, 2009, Etrion received $1.1 million from Baripetrol as an advance dividend for operations during 2008.

Mixed Company 2009 Capital Expenditures

During 2009, the following capital expenditures for PetroCumarebo and Baripetrol were met by the Mixed Companies' respective cash flow or other sources of financing, without cash calls to Etrion.

PetroCumarebo 2009 Capital Expenditures:

($000s)	**Gross Initial Budget 2009**	**Gross Revised Budget 2009**	**Gross Actual Incurred Dec 31, 2009**
Drilling and Work-overs			
- La Vela	18,110	12,312	16,430
- Cumarebo	6,610	5,262	2,370
- Total Drilling and Work-overs	24,720	17,574	18,800
Processing Facilities and Infrastructure			
- La Vela	2,233	2,233	-
- Cumarebo	1,600	1,600	-
- West Falcon	537	537	-
Total Processing Facilities and Infrastructure	4,370	4,370	-
Total Capital Budget	**29,090**	**21,944**	**18,800**

Note: Etrion owns 40% of PetroCumarebo. Budgeted capital expenditures are shown on a gross basis for PetroCumarebo. Etrion does not expect cash calls from PetroCumarebo for any portion of the 2009 capital expenditures.

***Baripetrol 2009 Capital Expenditures*:**

($000s)	**Gross Initial Budget 2009**	**Gross Actual Incurred Dec 31, 2009**
Seismic, Drilling and Work-overs		
- La Palma	30,351	35,232
- Socuavo	-	770
- Las Cruces	-	840
- Total Drilling and Work-overs	30,351	36,842
Processing Facilities and Infrastructure		
- Socuavo/ Las Cruces	3,200	858
- Colina Station	800	-
- Total Processing Facilities and Infrastructure	4,000	858
Total Capital Budget	**34,351**	**37,700**

Note: Etrion owns 5% of Baripetrol. Budgeted capital expenditures are shown on a gross basis for Baripetrol. Etrion does not expect cash calls from Baripetrol for any portion of the 2009 capital expenditures.

Mixed Company 2010 Capital Expenditures

The Mixed Companies operate as independent entities with seconded technical staff from shareholders. The Mixed Companies fund their capital expenditures through their own cash flow, to the extent available, or through cash calls to shareholders, including Etrion, if no other sources of financing are available. The Mixed Company shareholders intend PetroCumarebo and Baripetrol to be self-funding and rely on internally-generated cash flow to fund operations. To date, the Mixed Companies have not made a cash call to Etrion for capital expenditures. This could change if oil and gas price realizations decrease and will be further addressed in future filings if necessary.

General and Administrative ("G&A") Expense

($000s)		**Three months ended December 31,**		**Year ended December 31,**
	2009	**2008**	**2009**	**2008**
Salary and compensation benefits	1,576	743	3,175	2,913
Corporate and professional fees	808	478	2,177	1,705
Technical service agreement	53	140	350	497
Insurance	30	278	310	577
Travel expenses	218	162	486	571
Write-offs of receivables and other assets	-	883	30	1,306
Office, listing and filing expenses	601	169	867	649
Total G&A Expenses	3,286	2,853	7,395	8,218

Etrion's G&A expenses were $3.3 million during the three month period ended December 31, 2009, compared to $2.9 million during the three month period ended December 31, 2008. The net increase is primarily due to the acquisition of the European subsidiaries effective September 30, 2009.

Etrion's G&A expenses were $7.4 million during the year ended December 31, 2009, compared to $8.2 million during the year ended December 31, 2008. The net decrease was mainly due to a general lower level of activity and continued focus on

cost reductions in the operations in Venezuela. The net decrease was partially off-set with the G&A expenses from the European subsidiaries consolidated from September 30, 2009.

Etrion does not capitalize general and administrative expenses.

Depreciation and Amortization ("D&A") Expense

($000s)		**Three months ended December 31,**		**Year ended December 31,**
	2009	**2008**	**2009**	**2008**
Depreciation and amortization	53	26	220	113

For the three month period ended December 31, 2009, Etrion's D&A expense was $52,667 compared to $25,537 for the three month period ended December 31, 2008. For the year ended December 31, 2009, Etrion's D&A expense was $220,021 compared to $112,964 for the year ended December 31, 2008. The increase was due to the relocation and refurbishment of the Company's Venezuelan office, a commitment entered into in June 2008 when the Company expected to grow substantially in Venezuela. Additionally, Etrion's D&A expense for the three month period ended December 31, 2009, includes the D&A expense from the fixed assets of the European subsidiaries consolidated as of September 30, 2009.

Compensation Expense

($000s)		**Three months ended December 31,**		**Year ended December 31,**
	2009	**2008**	**2009**	**2008**
Stock-based comp from options plan	141	14	531	797
Stock-based comp for Northland's interest	892	-	892	-
One off non-cash compensation expense	-	-	5,449	-
Total compensation expense	1,033	14	6,872	797

During the three month period and the year ended December 31, 2009, the Company recorded $140,869 and $530,983, respectively, in stock-based compensation expense compared to $13,819 and $797,365, respectively, during the three month period and the year ended December 31, 2008.

As at December 31, 2009, the number of outstanding stock options was 11,383,640, compared to 9,333,660 outstanding stock options as of December 31, 2008. The net increase in stock options outstanding was due mainly to options granted to employees and directors in May 2009 and options granted to new directors of the Company and to employees of a subsidiary of SRH in September 2009, partially off-set with forfeited options held by departed employees and former directors during 2009.

The stock-based compensation also includes the recognition during the three month period ended December 31, 2009, of $0.9 million in compensation expense related to Northland's right to have his interest carried in the additional investments in SRH.

The one-time non-cash compensation expense relates to Northland's additional right to exchange his 10% equity interest in the Company's European subsidiary, SRH, for an equivalent fair value of shares in Etrion. See "Related Party Transactions".

Interest Income

($000s)	2009	Three months ended December 31, 2008	2009	Year ended December 31, 2008
Interest income	40	438	304	890

At December 31, 2009, Etrion had $23.4 million in cash and short-term deposits compared to $26.7 million at December 31, 2008. During the three month period ended December 31, 2009, the Company recorded interest income in the amount of $39,338, compared to $437,753 during the three month period ended December 31, 2008.

During the year ended December 31, 2009, the Company recorded interest income in the amount of $304,107, compared to $890,377 during the year ended December 31, 2008.

There was a significant decrease in interest rates during 2008 and 2009 that reduced the interest income received from the Company's short-term investments. In addition, following the acquisition of SRH, the Company made investments in the renewable energy sector that reduced the average monthly short-term deposits bearing interest.

Income Taxes

($000s)	2009	Three months ended December 31, 2008	2009	Year ended December 31, 2008
Consolidated income tax expense	93	-	93	-
Future income tax	-	-	-	-
Total income tax expense	93	-	93	-

During the year ended December 31, 2009, Etrion recorded a current income tax expense of $92,698 related to taxable income in the Swiss subsidiary. During the year ended December 31, 2008, Etrion recorded no income tax expense as the Company had no taxable income for the period.

The reconciliation of income taxes computed at Canadian statutory tax rates to the Company's income tax expense for the years ended December 31, 2009 and 2008, is as follows:

	2009 $	2008 $
Net loss before taxes	(58,964,450)	(23,190,057)
Combined statutory income tax	29.0%	29.5%
	(17,099,691)	(6,841,067)
Increase (decrease) resulting from:		
Difference in foreign tax rates	(2,327,051)	(151,976)
Expiry of prior years tax losses	2,842,951	-
Non taxable transactions	(628,205)	1,343,732
Non deductible expenses	14,290,887	5,818,122
Other	233,642	(772,892)
Change in valuation allowance	2,920,393	604,081
Income tax expense	$92,698	-

PFC Venezuela files its Venezuelan income tax return using the Venezuelan Bolivar as the reporting currency in accordance with the Venezuelan income tax law that also provides regular adjustments for inflation until December 31, 2009. PFC Venezuela recognized the effects of inflation in non-monetary assets and liabilities through the application of the General Consumer Price Index, based on procedures established in Venezuelan tax legislation. This adjustment for inflation is considered to be a taxable gain or, in the case of deflation, a deductible loss in determining the taxable income. Since the majority of PFC Venezuela's net monetary assets are held in US dollars, and the tax return is filed in Venezuelan Bolivars, foreign currency exchange adjustments will produce either a taxable gain or a deductible loss. The variation between the Venezuelan statutory tax rate of 34% and the income tax rate presented in these financial statements is due to the adjustments required for inflation and foreign currency translation.

At December 31, 2009, the Company had consolidated carry-forward losses of $11,616,329. The Company did not recognize any future income tax asset related to these carry-forward losses since it is not likely that the Company will be able to utilize these losses.

Liquidity and Capital Resources

As at December 31, 2009, Etrion had $23.4 million in cash and short-term deposits and $15.0 million of working capital. At December 31, 2008, Etrion had $26.7 million in cash, $32.9 million of working capital and no debt.
The non-recourse loan obtained by the Italian subsidiary, SVE, matures at various dates beyond 2011, with approximately €1.7 million repayable in the period 2011 to 2013. Counterparties to the non-recourse debt do not have unconditional or unilateral discretionary rights to accelerate repayment at earlier dates. Therefore, the Company is protected from short-term liquidity fluctuations.

Etrion has substantial cash on hand and expects to generate operating cash flow in 2010 through its renewable energy operations and by receiving dividends from its oil and gas investments. The Company estimates that it is entitled to receive a total of approximately $7.3 million in dividends (including an advance already received of $1.1 million) from Baripetrol and PetroCumarebo for 2007, 2008 and 2009 operations, but the payment of these dividends is uncertain. Based on prior experience and current oil prices, Etrion does not expect cash calls from PetroCumarebo or Baripetrol for 2010 capital expenditures.

The planned growth and development activities for the next twelve months will require additional funds. Management anticipates that these funds will be obtained from potential dividends from PetroCumarebo and Baripetrol and debt or equity securities financing. The Company cannot be certain that capital will be available when needed.

Share Data

As at March 15, 2010, the Company has 158,501,120 common shares issued and outstanding and 11,383,640 stock options outstanding. The stock options expire at various dates between June 12, 2013, and April 28, 2018, and are exercisable at various prices between CAD$0.25 and CAD$3.28 per share. In addition, Northland has the right until September 11, 2014, to exchange his equity interest in SRH for the equivalent fair value of shares of the Company. See "Related Party Transactions -- Marco Northland's exchange right and the Shareholders Agreement."

Risk Factors

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk (including interest rate, foreign currency and commodity price risk) and other risks. Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to accounts receivables from PetroCumarebo, value-added tax receivable and other tax credits of the wholly-owned Venezuelan subsidiary with the Venezuelan tax authorities and third party credits. The Company has no concentration of credit risk. Value added tax receivables are collectable from the Venezuelan government as of December 31, 2009, excluding amounts already provided for. Management considers that the credit risk with respect to financial instruments attributable to value added tax receivables is moderate.

In addition, the majority of the Company's cash and cash equivalents are on deposit with highly-rated banks in Canada and Europe. A lesser amount is held in banks in Curacao and Venezuela.

Liquidity risk

At December 31, 2009, the Company had sufficient funds to settle current liabilities. All of the Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days, except for severance employee benefits, an advance from Baripetrol and an exchange obligation, and are subject to normal trade terms. The Italian subsidiary, SVE, has a non-recourse credit facility that relates to a solar power project in southern Italy.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and oil prices.

(i) Interest rate risk

The Company's exposure to interest rate risk arises both from the interest rate impact on its cash and cash equivalents as well as on its debt facilities. Etrion has significant cash balances and short-term investments, with the latter having a variable annual interest rate from 0.80% to 3.08% in 2009. The Company's current policy is to invest excess cash in investment grade short-term deposit certificates issued by banks. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company has floating rate debt instruments but the exposure to interest risk has been mitigated by an interest hedge pursuant to the Centrobanca loan agreement.

(ii) Foreign currency risk

Etrion's functional currency is the US dollar. Any annual dividends from its oil and gas investments are in US dollars, and major purchases are transacted in US dollars. The Company maintains US dollar bank accounts in Canada and Curacao. The Company funds some of its subsidiary's operating and administrative expenses in Venezuelan Bolivars from its US dollar bank accounts.

During 2007, the Company's management determined that as a consequence of the rapid decline in the valuation of the Venezuelan Bolivar as reflected in the implied market for foreign currencies in Venezuela that the method of translation from Bs to USD using the official rate was no longer appropriate. The Company recognizes the foreign currency transactions of its Venezuelan subsidiary at the implied market rate in Venezuela, which had a spread of 178% over the official rate as of December 31, 2009. The Company has exposure to the volatility of the implied market rate in Venezuela that may result in significant foreign exchange gains or losses from its Venezuelan subsidiary.

The Company also funds its European subsidiaries' capital, operating and administrative expenses in Euros and Swiss Francs from its USD accounts. The Company has exposure to the volatility of the exchange rates of the Euro and Swiss Franc that may result in significant foreign exchange gains or losses from its European subsidiaries.

(iii) Commodity price risk

Oil price risk is the potential adverse impact on the Company's dividends from its oil and gas investments due to oil price volatility. The Company closely monitors oil prices to determine the appropriate course of action to be taken by the Company, to the extent possible, through its participation on the board of directors of PetroCumarebo and the private party consortium for Baripetrol.

Other risks

International operations

Etrion participates in oil and gas projects located in Venezuela and in renewable energy projects located in Europe. Energy exploration, development and production activities, including joint ventures in emerging markets, are subject to significant political and economic uncertainties that may adversely affect the Company's performance. Uncertainties include, but are not limited to, the possibility of expropriation, nationalization, renegotiation or nullification of existing or future power purchase agreements or oil and gas concessions and contracts, a change in crude oil, natural gas or renewable energy pricing policies, changes in taxation policies and/or the regulatory environment in the jurisdictions and industries in which the Company operates and the imposition of currency controls. These uncertainties, all of which are beyond the Company's control, could have a material adverse effect on Etrion's business prospects and results of operations. In addition, if legal disputes arise related to any of the Company's operations, Etrion could be subject to the jurisdiction of courts other than those of Canada. The Company's recourse may be very limited in the event of a breach by a government or government authority of an agreement governing an energy project in which Etrion has or acquires an interest.

Licenses and Permits

The operations of the Company require licenses and permits from various governmental authorities. The Company believes that it presently holds all necessary licenses and permits required to carry out the activities that it is currently conducting under applicable laws and regulations, and the Company believes it is presently complying in all material respects with the terms of such licenses and permits. However, such licenses and permits are subject to change in regulations and in various 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 and to begin selling electricity.

Competition

The renewable energy and oil and gas industries are intensely competitive, and the Company will compete with a substantial number of other companies, many of which have greater financial and operational resources. There is no assurance that the Company will be able to acquire any energy projects on economic terms or at all. Etrion and the Mixed Companies also compete with other companies in attempting to secure equipment necessary for construction of solar energy projects and drilling and completion of oil and gas wells. Such equipment may be in short supply from time to time. In addition, equipment and other materials necessary to construct production and transmission facilities may be in short supply from time to time. There is no assurance that the Company or the Mixed Companies will be able to successfully compete against their competitors.

Cost Uncertainty

The renewable energy and oil and gas projects in which the Company is currently involved or in which it may be involved in the future are subject to the risk of cost overruns or other unanticipated costs and expenses that could have a material adverse impact on the Company's financial performance.

Prices and Markets for Electricity, Oil and Natural Gas

Although the Company will focus on developing renewable energy projects in jurisdictions that provide long-term feed-in-tariffs to provide pricing certainty, pricing for the sale of electricity may be subject to change based on economic, political and other conditions. Oil and natural gas are also commodities whose prices are determined based on global demand, supply and other factors, all of which are beyond the control of the Company. World prices for oil and condensate have fluctuated widely in recent years. Future price fluctuations in world oil prices will have a significant impact upon the revenue of the Mixed Companies and the potential dividends to the Company.

Substantial Capital Requirements, Liquidity

Until such time, if any, as the Company is able to generate profits from its renewable energy projects, dividends received by the Company from the Mixed Companies may not be sufficient to fund its ongoing activities. From time to time, the

Company may require additional financing in order to carry out its investment, acquisition and development activities. The Company anticipates that it will make substantial capital expenditures related to renewable energy projects in the future. If the Mixed Companies' earnings or reserves decline or the Company cannot receive funds from PetroCumarebo and/or Baripetrol, the Company may have limited ability to expend the capital necessary to undertake or complete future projects. Failure to obtain such financing on a timely basis could cause the Company 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 by 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 Company. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's business, financial condition and results of operations.

Issuance of Debt

The Company anticipates financing a significant portion of the capital costs associated with the construction and development of its renewable energy projects by way of debt. The level of the Company's indebtedness from time to time could impair its ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise. Breaches of debt obligations by the Company or any of its subsidiaries could also subject the Company or its subsidiaries to the risk of seizure or forced sale of some or all of their assets.

Governmental Regulation

The renewable energy and oil and gas industries are subject to extensive government regulation. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the industries in which the Company operates could impair the ability of the Company to acquire and develop economic projects, increase the Company's costs and have a material adverse effect on the Company.

Reliance on Contractors and Key Employees

The ability of the Company and the Mixed Companies to conduct their operations is highly dependent on the availability of skilled workers. The labour force in Europe and Venezuela is unionized and politicized, and the Company's and the Mixed Companies' 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. The Company does not have any key man insurance policies, and there is a risk that the death or departure of any member of management or any key employee could have a material adverse effect on the Company.

Dividends from the Mixed Companies

Etrion's only current source of revenue is potential dividends from its 40% interest in PetroCumarebo and its 5% interest in Baripetrol. Under Venezuelan law, dividends can only be declared to the extent a company has net and available profits as stated in its approved financial statements. Therefore, if there are sufficient net and available profits, subject to prior approval of shareholders, Etrion, through PFC Venezuela, may receive annual dividends in US dollars, or quarterly loans against those projected dividends. If the Mixed Companies' boards of directors do not propose dividends, the Mixed Companies' shareholders do not approve dividends or the Mixed Companies do not have net and available profits to declare dividends, Etrion cannot expect to receive payment from the Mixed Companies. Dividends from the Mixed Companies must be proposed by four out of the five board members (80%), and each of PFC Venezuela and Baripetrol's private party consortium (which includes Tecpetrol, Perenco and PFC Venezuela) have two out of five board seats (40%) in the respective Mixed Companies. Dividends proposed by the board of the Mixed Companies must be approved by a qualified majority (75%) of its respective shareholders, and PFC Venezuela and Baripetrol's private party consortium each only account for 40% of the respective shareholders. Furthermore, given the current economic environment and its potential impact on the oil and gas business, PDVSA and the Venezuelan government, the timing and amount of dividends from the Mixed Companies is uncertain.

Related Party Transactions

Pacific Oil and Gas

Pacific Oil and Gas, LLC ("Pacific Oil and Gas") is controlled by Etrion's former Vice Chairman and current board member, Clarence Cottman, and Etrion's former President and Chief Executive Officer, William Gumma. The Company paid Pacific Oil and Gas for the years ended December 31, 2009 and 2008, $562,500 and $613,000, respectively.

Lundin Services BV

Etrion receives technical services from Lundin Services BV, a wholly owned subsidiary of Lundin Petroleum. Lundin Petroleum indirectly owns 45% of the Company, and Lundin Petroleum's President and CEO, Ashley Heppenstall, is a member of the Board of Directors of Etrion. For the years ended December 31, 2009 and 2008, the Company paid Lundin Services BV for professional services $114,770 and $80,170, respectively. These payments for professional services include oil and gas geology, reserve and legal advice for Etrion's business development activities in the oil and gas segment.

Lundin Petroleum SA

Etrion also receives technical services from Lundin Petroleum SA, a wholly owned subsidiary of Lundin Services BV. For the years ended December 31, 2009 and 2008, the Company paid Lundin Petroleum SA for professional services $19,191 and nil, respectively. These payments for professional services include management and legal advice for Etrion's renewable energy business.

These related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Lundin Petroleum AB

On April 7, 2008, the Company announced the signing of a binding sale and purchase agreement for the acquisition of 100% of the issued and outstanding shares of Anadarko Venezuela Company ("Anadarko Venezuela") from an affiliate of Anadarko Petroleum Corporation ("Anadarko Petroleum") for $200 million in cash. The agreement was subject to the approval of the Venezuelan Ministry of Energy and Petroleum ("MEP"), which was subsequently denied.

Lundin Petroleum AB ("Lundin Petroleum") provided a guarantee to Anadarko Petroleum for the full purchase price. In consideration for the guarantee, the Company agreed to issue 17.1 million common shares of the Company to Lundin Petroleum or one of its subsidiaries, subject to regulatory approval. On April 11, 2008, the Company issued 7.1 million of these shares to Lundin Petroleum, which, as of December 31, 2009, indirectly owned 45% of the issued and outstanding shares of the Company. The initial shares were expensed by the Company as stock-based financing fees over the effective period of the sale and purchase agreement. The remaining 10 million shares that would have been due at closing were not issued, in accordance with the agreement with Lundin Petroleum.

SRH Transaction

On August 11, 2009, the Company announced the signing of a share purchase agreement for the acquisition of 90% of the outstanding shares of SRH, a private company developing a pipeline of renewable energy power projects, from Lorito and other parties. Lorito is an investment company wholly owned by a Lundin family trust and holds 24% of the shares of Lundin Petroleum.

On September 11, 2009, Etrion acquired 90% of SRH from the previous shareholders at cost for €2.3 million ($3.26 million) in cash. Included in this amount, Etrion purchased 4.425% of SRH at cost for €115,434 ($163,524) from Ashley Heppenstall, a Director of Etrion and the President and CEO of Lundin Petroleum. Etrion also advanced a loan to SRH in the amount of €1.35 million ($1.91 million) in order to repay an equivalent amount advanced to SRH by Lorito.

Marco Northland's exchange right and the Shareholders Agreement

Guaranteed floor

The SRH Shareholders Agreement provides Northland with a right to exchange his 10% equity interest in SRH, for a period of five years, for an equivalent fair value of shares in Etrion with a guaranteed floor on the exchange value of his interest of €4.0 million. Any portion of Northland's equity interest in SRH that has not been exchanged for shares of the Company at the end of the five-year period will be automatically exchanged. The Company has recognized a liability related to this exchange right of €4.0 million ($5.8 million) as at the balance sheet date and a related non-cash compensation expense of $5.5 million for the excess of this amount over the fair value of his 10% equity interest in SRH at the date of the acquisition. The Company will continue to recognize the fair value of the exchange right as a liability until such time as it is exercised or deemed to be exercised.

Carried interest on the initial investments

The Shareholders Agreement also provides that any additional funds required by SRH up to €17.7 million will be loaned by Etrion without a fixed term of repayment. The funds advanced to date by Etrion bear interest at 3.75% per annum. At the date of SRH's acquisition, the Company advanced €1.35 million ($1.91 million) to SRH as a loan. Under the agreement, Northland is entitled to 10% of any interest or principal repayments on such loan. At this time, the Company does not expect to make any repayments of principal or payment of interest on such loan in the foreseeable future. Should principal repayments be expected, Northland's entitlement would be expensed over the expected period to repayment.

Carried interest on the additional investments

In addition, the Shareholders Agreement also provides for the additional issuance of the equivalent of "at the money" stock options on the date of future equity investments by Etrion in SRH above the initial €17.7 million. Northland will receive the equivalent of at the money stock options to purchase shares of SRH with a value of 10% of future equity investments by Etrion to a maximum value of €8.0 million. That is, if the parent company invests €80.0 million in additional equity of SRH, Northland will receive the equivalent of at the money stock options to purchase shares of SRH with a value of €8.0 million at the date of the advance.

The Company views these options as being granted, subject to a performance condition relating to future investments that it may make in its subsidiary, SRH. The grant date fair value of these options has been calculated as $6.6 million using a Black-Scholes model based on the following assumptions:

Risk-free interest rate	2.56%
Expected volatility	101.71%
Dividend yield rate	0.00%
Weighted average expected life of stock options	5 years
Weighted average grant date fair value	€0.08

The Company reassessed the performance condition as at December 31, 2009, and considered that it is likely that Etrion will invest €80.0 million in additional equity into the subsidiary over a period of 3.5 years from the balance sheet date. Therefore, the Company has recorded a non-cash compensation expense of $0.9 million related to these in substance, at the

money options. The total fair value of the stock options will be vested in accordance with the performance conditions schedule over 3.5 years from the balance sheet date based on its probability of occurrence using the graded vesting attributed method. Under the graded method, each instalment of the graded-vesting feature is treated as a separate option, and the fair value for each instalment differs.

Critical Accounting Policies and Estimates

The Company made assumptions in applying the following critical accounting estimates that were uncertain at the time the accounting estimate was made and may have a significant effect on the financial statements of the Company.

Investments in Oil and Gas Companies

Investments in oil and gas companies are recognized in the financial statements using the equity method or the cost method of accounting. If the Company holds less than 20% of the voting interest in the investee, it is presumed that the Company does not have the ability to exercise significant influence and the cost method is used, unless such influence is clearly demonstrated. If the Company holds 20% or more of the voting interest in the investee, the equity method would normally be used although it does not in itself confirm the ability to exercise significant influence. Investments where the Company does not have significant influence are classified as financial assets and, in the absence of a quoted price in an active market, carried at cost. Under the cost method, Etrion does not recognize its share of revenues, expenses, assets or liabilities from investees. Interests in jointly controlled entities are recognized in the Company's financial statements using the proportionate consolidation method.

PetroCumarebo Accounting

In 2007, Etrion re-evaluated its relationship with PetroCumarebo and concluded that, for accounting purposes, Etrion's investment in PetroCumarebo does not meet the criteria for proportionate consolidation or equity method accounting. Accordingly, Etrion has accounted for PetroCumarebo using the cost method of accounting for the years ended December 31, 2009, and 2008. Under the cost method, Etrion does not recognize its 40% share of revenues, expenses, assets or liabilities from PetroCumarebo and instead only recognizes income from the investment to the extent that dividends are received from PetroCumarebo. As a result, Etrion had no revenues for the years ended December 31, 2009 and 2008.

Baripetrol Accounting

Etrion's investment in Baripetrol is recognized under the cost method of accounting. During the year ended December 31, 2008, Etrion received $2.9 million in dividends from Baripetrol for operations between January and December 2007. The dividends have been credited against the historical cost of the investment instead of being recognized as income during the year ended December 31, 2008, because the dividends were related to earnings before the closing of the transaction.

Financial Assets Carried at Cost – Impairment Test

The Company evaluates the carrying amount of its investment when there is objective evidence that a financial asset might be impaired. In measuring and recognizing impairment losses, the Company compares the investment carrying amount against its share participation in the sum of the undiscounted cash flows expected to result from the production of proved reserves associated with its oil and gas interests. If the carrying amount exceeds the undiscounted cash flows, then the Company compares the carrying amount against its share participation in the discounted cash flows of proved and probable reserves (the fair value) associated with its oil and gas interests. Impairment losses are measured as the amount by which the carrying value of the investment exceeds the Company's share participation in the fair value. Estimated undiscounted future cash flows after taxes and contributions used to measure the recoverability of Etrion's investments were prepared based on current and future assumptions about the use of oil and gas assets by PetroCumarebo and Baripetrol considering all available evidence, such as current and expected oil and gas production according to the business plans and independent reserves certification, current and expected oil and gas prices as indicated by the Company's petroleum advisors and projected capital expenditures and operating expenses to maintain and produce proved reserves.

Under certain circumstances, management uses the "expected cash flows approach" to calculate the fair value. Under the expected cash flows approach, management compares the investment's carrying amount against its share participation in the sum of future cash flows resulting from the production of proved and probable reserves associated with its oil and gas interests. In this approach, management analyzes the cash flow projections using risk-adjusted probability (cash flow based on probability), considering the payment experience from PetroCumarebo and Baripetrol and information from the latest meetings of their boards of directors. Accordingly, impairment losses are measured as the amount by which the carrying value of the investment exceeds the Company's share participation in the fair value.

Management conducted an impairment test of its oil and gas investments for the year ended December 31, 2009 and 2008, and concluded that the carrying amount of the investments exceeded its fair value.

PetroCumarebo

Given the fact that no dividends have been received since the effective date of PetroCumarebo (April 1, 2006), and the only dividends that are expected to be received in the future correspond to the operations of 2007 and 2008 in the amount of $1.9 million, management has concluded, based on a risk-adjusted probability approach, that this is the fair value of the PetroCumarebo investment. Therefore, a write-down of $38.7 million was recorded in the quarter ended September 30, 2009.

Baripetrol

Management considered the history of dividends paid by Baripetrol, the advances on dividends received in the third quarter of 2009, as well as the dividends that are expected to be received in the future. Based on the current reserves and expected future oil and gas prices and the weighted probabilities of potential future cash flow scenarios, management concluded that the fair value of this investment is approximately $8.1 million. Therefore, a write-down of $5.3 million was recorded in the quarter ended September 30, 2009. Additionally, management recorded an impairment loss of $6.8 million against the carrying value of the investment, included in the statement of operations for the year ended December 31, 2008.

Stock-Based Compensation

The Company uses the fair value method of accounting for its stock-based compensation expense associated with its stock option plan. Compensation expense is based on the fair value of stock options at the grant date using the Black-Scholes option pricing model. The Black-Scholes model requires estimates for the expected volatility of the Company's stock, a risk-free interest rate, expected dividends on the stock and the expected life of the option. Changes in these estimates may result in the actual compensation expense being materially different than the compensation expense recognized. However, this expense is not subsequently adjusted for changes in these factors. Options granted that are subject to performance conditions are vested from the balance sheet date based on probability of occurrence using the graded-vesting attributed method. See "Related Party Transactions".

Disclosure Controls and Internal Control Over Financial Reporting

The Chief Executive Officer and Chief Financial Officer of Etrion have carried out an evaluation of the effectiveness of Etrion's disclosure controls and procedures ("DC&P") and assessed the design of its internal control over financial reporting ("ICFR") as at December 31, 2009, pursuant to the requirements of National Instrument 52-109. Based on the evaluation conducted, the Chief Executive Officer and Chief Financial Officer have concluded that the design and operation of Etrion's disclosure controls and procedures and internal control over financial reporting were effective as at December 31, 2009.

National Instrument 52-109 allows for a limitation on scope when the issuer acquired a business not more than 365 days before the end of the financial period. Consequently, SRH and its subsidiaries were excluded from the assessment of internal controls since it was acquired by Etrion during the year ended December 31, 2009, and its operations have not yet been integrated into the Etrion group's controls, policies and procedures. Management is currently revising the group's internal control structure to incorporate the new subsidiaries.

The following table contains summarized financial information for SRH that has been consolidated in Etrion's financial statement:

	2009 $
BALANCE SHEET	
Cash	8,841,853
Restricted cash	18,070
Accounts receivable and deposits	374,821
Prepaid expenses and other current assets	164,969
Derivative instruments	231,429
Property, plant and equipment	744,145
Intangible	3,000,813
Total assets	**13,376,100**
Derivate instrument	707,074
Accounts payable and accrued liabilities	1,180,367
Income tax payable	91,706
Long-term debt	1,279,197
Amounts owed to related parties	10,699,522
Future income tax liability	819,614
Total liabilities	**14,777,480**
Net equity	**(1,041,380)**

STATEMENT OF OPERATIONS	**Year ended Dec 31, 2009**
Revenue	-
General and administrative	4,706,187
Depreciation	14,342
Interest expense	147,460
Foreign exchange gain	(202,447)
Other income	(118,146)
Loss on derivative instruments	467,093
Net loss	**5,014,489**

International Financial Reporting Standards ("IFRS")

In January 2006, The Canadian Institute of Chartered Accountants ("CICA") Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011.

On February 13, 2008, the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will be required for Etrion's interim and annual financial statements for the fiscal year beginning January 1, 2011.

IFRS Conversion Plan

The Company's IFRS conversion plan addresses all the relevant matters required by Staff Notice 52-718 such as milestones and deadlines, roles and responsibilities, key differences in accounting policies, impact on internal control over financial reporting, and the impact on business activities and IT systems. The Company has completed the diagnostic and measurement phase and has identified the key differences between IFRS and Canadian GAAP financial statements at December 31, 2009. The Company has also assessed the impact of the mandatory and optional exemptions for retrospective application of IFRS as required by IFRS 1, assessed the impact of IFRS on its business activities and identified training needs for its key employees involved in the preparation and review of financial information. The Company is still assessing the changes that may need to be made to its internal control structure, accounting policies and procedures and IT systems as a result of the conversion. The following table summarizes the key activities addressed by our conversion plan, the estimated completion date for each of these activities as well as a current status update:

Key Activities	**Timing**	**Current Status**
Financial Statement Preparation:		
Analyze and select ongoing policies where alternatives are permitted including IFRS 1 exemptions	Q1 2010	Completed in March 2010
Quantify key differences between IFRS and Canadian GAAP	Q1 2010	In progress
Revise accounting policies and procedures	June 2010	In progress
Prepare IFRS consolidated financial statements including first time adoption reconciliations	June 2010	In progress
Training:		
Provide technical training to key finance and accounting personnel, as well as selected employees involved with the IFRS conversion process	Ongoing training as required	External training completed by key finance staff Training sessions scheduled for Q2 2010
Business activities:		
Identify conversion impacts on the project finance phase, project implementation and asset management phase	June 2010	In progress
Financial Information Systems:		
Identify changes required to financial information systems and implement solutions	June 2010	In progress
Control environment:		
Maintain effective DC&P and ICFR through the transition project	June 2010	In progress
Specific controls over the quantification of IFRS adjustments and financial statements reconciliations	June 2010	In progress

Impact on IFRS

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption of IFRS will not change the actual cash flows of the Company, the adoption will result in changes to the reported financial position and results of operations of the Company. In order to allow the users of the financial statements to better understand these changes, we have provided the following conceptual differences between Canadian GAAP and IFRS for the total current assets, total assets, total current liabilities, total liabilities, shareholders equity and net loss.

Foreign currency -- Difference relating to the accounting treatment of foreign currency transactions.

For Canadian GAAP purposes, Etrion's foreign subsidiaries are considered to be an extension of the Company's operations (i.e., no self-sustained operations), hence, their functional currency is deemed to be the US dollar and the transactions and balances denominated in a different currency are translated using current rates, historic rates and average rates depending on the nature of the transactions (monetary items, non-monetary items and profit and loss balances). Under IFRS, the functional currencies of the foreign operations are the local currencies where each company conducts its business (the country where the Company is located), and the financial statements are translated to US dollars (the presentation currency) using current exchange rates. This particular difference originates because property, plant and equipment, goodwill and other fixed assets are translated using historic exchange rates for Canadian GAAP and current rates for IFRS. In addition, the cumulative translation adjustment is recognized in equity under IFRS when translating the financial statements of the foreign subsidiaries for consolidation purposes. Under Canadian GAAP, the exchange differences are recorded in the statement of financial position as a foreign exchange gain or loss.

Stock-based compensation -- Differences relating to the accounting treatment of stock options granted by Etrion pursuant to the current stock options plans.

Under Canadian GAAP, a company has the choice to measure forfeitures based on actual experience or based on the estimated number of forfeitures expected to be incurred. However, IFRS requires an initial estimate of the number of expected forfeitures, and subsequent adjustments are made to the estimate to reflect the actual number of awards that vest, unless forfeitures are due to market-based vesting conditions. Also, in Canadian GAAP, the straight-line method is used to account for graded-vesting features, whereas in IFRS, each instalment of the graded-vesting features is treated as a separate share option plan (because each instalment has a different vesting period), and the fair value for each instalment differs.

Deferred taxes -- Difference relating to the deferred tax liability from the purchase of SVE, which was allocated to intangible assets for Canadian GAAP purposes.

IAS 12 prohibits recognition of a deferred tax liability if it arises from the initial recognition of specified assets in a transaction that is not a business combination and did not affect accounting or taxable income at the time of the transaction.

Initial Adoption of International Accounting Standards

IFRS 1, "First Time Adoption of International Accounting Standards," sets forth guidance for the initial adoption of IFRS. Under IFRS 1, the standards are applied retrospectively at the transitional balance sheet date with all adjustments to assets and liabilities as stated under Canadian GAAP taken to retained earnings unless certain exemptions are applied. The Company has chosen to apply only the business combination optional exemption, which allows the Company to avoid restating its business combinations to comply with IFRS 3R. The Company does not expect the other exemptions (optional or mandatory) to have a significant impact on its financial statements as part of the conversion process.

IFRS early adoption

In Staff Notice 52-321 – Early Adoption of International Financial Reporting Standards, Use of US GAAP and Reference to IFRS - IASB, the Canadian Securities Administrators ("CSA") has indicated that it would be prepared to provide exemptive relief to permit a Canadian reporting issuer to prepare its financial statements in accordance with IFRS for financial periods beginning before January 1, 2011.

In December 2009, the Company submitted an IFRS early adoption application to the British Columbia Securities Commission ("BCSC") pursuant to CSA Staff Notice 52-321 and is currently in discussions with the BCSC, acting as representative of the CSA, about the possibility of early adoption under the exemptive relief in CSA Staff Notice 52-321. If permitted by the regulatory authorities, the Company intends to adopt IFRS for Canadian reporting purposes for interim and annual financial statements for the fiscal year beginning January 1, 2010, with the first reporting period under IFRS being the six month period ending June 30, 2010.

Based on the current status of the conversion plan, the relative early stage of Etrion's renewable business segment and the relative low complexity of the Company's operations from an accounting perspective, management has concluded that, if the early adoption is approved by the CSA, Etrion will be prepared to file its interim and annual financial statements for financial periods beginning on or after January 1, 2010, in accordance with IFRS.

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.ch**.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants
PO Box 82
Royal Trust Tower, Suite 3000
Toronto Dominion Centre
Toronto, Ontario
Canada M5K 1G8
Telephone +1 416 863 1133
Facsimile +1 416 365 8215

March 15, 2010

Auditors' Report

To the Shareholders of
Etrion Corporation

We have audited the consolidated balance sheets of **Etrion Corporation** as at December 31, 2009 and 2008 and the consolidated statements of operations, comprehensive operations and accumulated deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate legal entity.

Etrion Corporation

Consolidated Financial Statements
December 31, 2009 and 2008
(expressed in US dollars)

Consolidated Balance Sheets

As at December 31, 2009 and 2008

(expressed in US dollars)

	2009 $	2008 $
ASSETS		
Current assets		
Cash and cash equivalents (note 3)	23,447,778	26,667,337
Restricted cash	18,070	-
Accounts receivable and deposits (note 4)	1,019,467	6,885,555
Income tax recoverable	49,469	151,699
Prepaid expenses	243,949	86,567
	24,778,733	33,791,158
Long-term accounts receivable (note 4)	753,474	494,564
Derivative instruments (note 10)	231,429	-
Investments (note 5)	10,000,000	54,046,990
Property, plant and equipment (note 6)	883,509	565,926
Goodwill (note 7)	807,592	-
Intangible assets (note 8)	5,924,738	-
	43,379,475	88,898,638
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	3,236,638	919,414
Exchange obligation (note 13)	5,762,400	-
Derivative instrument (note 10)	698,522	-
Amounts owed to related parties (note 13)	62,808	-
Income tax payable (note 18)	91,706	-
Future tax liability (note 18)	1,696,791	-
Long-term debt (note 10)	1,279,197	-
Other long-term liabilities (note 14)	700,824	494,564
	13,528,886	1,413,978
Shareholders' equity		
Share capital (note 11)	107,556,978	107,556,978
Warrants (note 11)	1,867,386	1,867,386
Contributed surplus (note 11)	10,140,785	8,717,778
Accumulated deficit	(89,714,560)	(30,657,482)
	29,850,589	87,484,660
	43,379,475	88,898,638

Commitments (note 17)
Subsequent events (note 21)

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

Approved by the Board of Directors

signed "Marco Northland" Director
Marco Northland

signed "Clarence Cottman" Director
Clarence Cottman

Consolidated Statements of Operations, Comprehensive Loss and Accumulated Deficit

For the years ended December 31, 2009 and 2008

(expressed in US dollars)

	2009 $	2008 $
Expenses		
General and administrative	7,395,863	8,217,813
Impairment loss from investments in oil and gas companies (note 5)	44,046,991	6,824,974
Depreciation and amortization	220,021	112,964
Non-cash compensation expense (note 13)	5,449,920	-
Stock-based compensation (note 12)	1,423,007	797,365
	58,535,802	15,953,116
Loss before financing (expense) income and income tax	(58,535,802)	(15,953,116)
Financing (expense) income		
Interest income	304,109	890,377
Foreign exchange loss	(287,164)	(721,840)
Guarantee fee	-	(7,878,842)
Loss on derivative financial instruments (note 10)	(467,093)	-
Other income	21,500	473,364
	(428,648)	(7,236,941)
Loss before income taxes	(58,964,450)	(23,190,057)
Income taxes (note 18)	(92,628)	-
Net loss and comprehensive loss	(59,057,078)	(23,190,057)
Accumulated deficit – Beginning of year	(30,657,482)	(7,467,425)
Accumulated deficit – End of year	(89,714,560)	(30,657,482)
Basic and diluted weighted average number of common shares outstanding (note 20)	158,501,120	150,945,412
Basic and diluted loss per share (note 20)	(0.37)	(0.15)

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

Consolidated Statements of Cash Flows

For the years ended December 31, 2009 and 2008

(expressed in US dollars)

	2009 $	2008 $
Cash (used in) provided by operating activities		
Net loss	(59,057,078)	(23,190,057)
Items not affecting cash		
Depreciation and amortization	220,021	112,964
Guarantee fee	-	7,878,842
Impairment loss from investments in oil and gas companies	44,046,991	6,824,974
Unrealized loss on derivative financial instruments	467,093	-
Bad debt expense	-	349,664
Write-off of other investments	-	350,000
Non-cash compensation expense	5,449,920	-
Stock-based compensation	1,423,007	797,365
	(7,450,046)	(6,876,248)
Net change in non-cash working capital items		
Accounts receivable	5,612,448	473,622
Accounts payable and accrued liabilities	1,464,660	(2,649,703)
Income tax payable	91,706	-
Prepaid expenses	(157,088)	-
Income taxes recoverable	103,305	807,108
	(335,015)	(8,245,221)
Financing activities		
Long-term debt	1,279,197	-
Repayment of short-term debt	-	(2,492,857)
Proceeds received on exercise of share options and warrants	-	276,598
Private placement	-	5,110,000
	1,279,197	2,893,741
Investing activities		
Sale (acquisition) of property and equipment, net	(443,223)	3,140,059
Acquisition of Lundin Latina de Petroleos, S.A.	-	21,153,541
Acquisition of Solar Resources Holding, Sarl	(2,982,255)	-
Acquisition of SVE, Srl	(1,863,263)	-
Baripetrol advance of dividends	1,125,000	-
Baripetrol pre-acquisition dividends	-	2,951,287
	(4,163,741)	27,244,887
Net increase (decrease) in cash during year	(3,219,559)	21,893,407
Cash and cash equivalents – Beginning of year	26,667,337	4,773,930
Cash and cash equivalents – End of year	23,447,778	26,667,337
Supplementary information		
Interest paid	-	161,265
Income taxes paid	-	-

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

1 Description of business

Etrion Corporation ("Etrion" or the "Company"), formerly PetroFalcon Corporation, is focused on developing, building, owning and operating electrical power plants based on renewable sources of energy, including solar photovoltaic, solar thermal and wind. Etrion also continues to hold oil and gas investments in Venezuela through its wholly owned Venezuelan subsidiary, PFC Oil and Gas, C.A., formerly Vinccler Oil and Gas, C.A., ("PFC Venezuela"), which owns 40% of PetroCumarebo, S.A. ("PetroCumarebo") and 5% of Baripetrol, S.A. ("Baripetrol"). The Company previously held its interest in Baripetrol through another Venezuelan subsidiary, Lundin Latina de Petroleos, S.A. ("Lundin Venezuela"). Effective December 31, 2008, Lundin Venezuela was merged with PFC Venezuela and ceased to exist. Unless otherwise stated herein, all dollar amounts are expressed in US dollars ("$").

Acquisition of Solar Resources Holding, Sarl ("SRH")

On September 11, 2009, Etrion completed the acquisition of 90% of the outstanding shares of SRH, a private company developing a pipeline of renewable energy power projects, from Lorito Holdings Srl ("Lorito") and other parties. Lorito is an investment company wholly owned by a Lundin family trust and holds 24% of the shares of Lundin Petroleum AB ("Lundin Petroleum"), which indirectly owned 45% of Etrion at the date of acquisition.

Etrion acquired 90% of SRH from the previous shareholders at cost for €2.3 million ($3.26 million at the acquisition date) in cash. Etrion also advanced a loan to SRH in the amount of €1.35 million ($1.91 million at the acquisition date) in order to repay an equivalent amount advanced to SRH by Lorito. The remaining 10% of SRH continues to be held by Marco Northland ("Northland"), who was appointed as Chief Executive Officer of Etrion at closing.

The excess of the purchase consideration over the adjusted carrying values of SRH's assets and liabilities has been allocated to goodwill. The initial fair value of the intangible assets recognized as a result of the business combination, in the amount of $2.9 million, relates to the development pipeline of renewable energy projects. This intangible asset will be amortized over the expected life of the project once the construction of the solar power plants is completed. Future income tax liabilities generated upon recognition of the intangible assets were allocated to the cost of the acquisition.

The allocation of the purchase price is summarized in the table below:

Cost of acquisition:	**$**
Cash consideration for 90% of SRH	3,437,914
Acquisition costs	182,000
	$3,619,914
Allocation of the purchase price:	
Fair value of SRH's identifiable net assets and liabilities	4,001,979
Less: Future tax liability	(877,177)
Fair value of SRH's identifiable net assets and liabilities	$3,124,802
90% of share participation on adjusted fair value of net assets acquired	2,812,322
Excess of the purchase consideration over the net asset value	807,592
	$3,619,914

Shareholders' agreement

At closing of the SRH acquisition, Etrion and Northland entered into a shareholders' agreement (the "Shareholders Agreement") to govern their rights and obligations as the shareholders of SRH. Under the Shareholders Agreement, Northland will maintain his 10% equity ownership of SRH without putting up additional capital until such time as Etrion has advanced an aggregate of €17,690,310 to SRH. Northland also has the right to maintain his 10% equity ownership through purchases of shares financed by loans from Etrion ("Loan Shares") or by way of "phantom shares" that do not require Northland to invest additional capital but are offset by notional loans from Etrion ("Carry Shares") until such time as Etrion has invested an additional €80,000,000 in SRH.

Northland also has the right under the Shareholders Agreement, for a period of five years, to exchange some or all of his shares of SRH, including Loan Shares and Carry Shares, for Etrion shares with a value based on the increase in value of SRH from the date of the Shareholders Agreement to the date of exchange and net of amounts owed by Northland in respect of the Loan Shares and Carry Shares. The value of SRH for this purpose will be based on the market capitalization of the Company less the value of its oil and gas investments and subject to certain other adjustments related to the Company's non-SRH debt and cash on hand. Any SRH shares held by Northland that have not been exchanged for Etrion shares at the end of the five-year period will automatically be exchanged on the same basis.

Acquisition of SVE, Srl ("SVE")

On October 20, 2009, the Company's subsidiary, SRH, purchased 100% of the outstanding shares of an Italian entity, SVE, which owns the required permits for the construction of four solar power plants in southern Italy, for an aggregate purchase price of €1.3 million (equivalent to $1.9 million at the date of acquisition). A contingent consideration was recognized at the time of acquisition for €180,000 ($266,400) related to additional payments due upon connection to the Italian electricity grid.

At the date of acquisition, SVE owned permitted projects with a carrying value of €121,000 (equivalent to $174,000 at the date of acquisition) that were contributed by the seller before the execution of the share purchase agreement.

The allocation of the purchase price to the fair value of the assets acquired is summarized below:

	$
Cash consideration for 100% of SVE	1,894,400
Contingent consideration	266,400
	$2,160,800
Intangible assets (permitted projects)	2,159,905
Income tax recoverable	895
Sub-total	$2,160,800
Future income tax liability allocated to the acquired assets	819,614
Total	$2,980,414

The acquisition of SVE has been accounted for by Etrion as an asset acquisition. The excess of the purchase consideration over the carrying value of the underlying assets of $1.9 million has been allocated to intangible

assets. Future income tax liabilities generated upon recognition of the acquired assets have been allocated to the intangible asset.

2 Summary of significant accounting policies

The following is a summary of significant accounting policies used in the preparation of these financial statements:

a) Basis of consolidation

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The consolidated financial statements include the accounts of all subsidiaries. All inter-company balances and transactions are eliminated upon consolidation.

b) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported years. Accounts that require management to make material estimates in determining amounts recorded include allocation of the purchase price to fair values on the acquisition of businesses and assets, contingent liabilities, tax provisions and future income tax balances, assumptions used in impairment testing of oil and gas investments, property, plant and equipment, depreciation and amortization, equity instruments, stock-based compensation measurements, financial and derivative instruments valuations, valuation of intangibles and other accrued liabilities. Actual results may differ from these estimates.

c) Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term and demand deposits with an initial term to maturity of three months or less that are readily convertible into cash.

d) Accounts receivable

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of operations within 'general and administrative expenses'. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against 'general and administrative expenses' in the statement of operations.

e) Subsidiaries, variable interest entities, investments and interests in joint ventures

Investments over which the Company holds a controlling interest are consolidated in these financial statements. The Company consolidates subsidiaries and entities that are subject to control on a basis other than ownership of a majority of the voting interests, or variable interest entities.

Investments over which the Company has the ability to exercise significant influence are accounted for by the equity method. Under this method, the investment is initially recorded at cost and adjusted thereafter to record the Company's share of post acquisition earnings or loss of the investee as if the investee had been consolidated. The carrying value of the investment is also increased or decreased to reflect the Company's share of capital transactions, including amounts recognized in other comprehensive income, and for accounting changes that relate to periods subsequent to the date of acquisition. When there is a loss in value of an equity accounted investment which is other than temporary, the investment is written down to recognize the loss by a charge included in net results. Investments where the Company does not have significant influence are classified as assets available for sale carried at fair value.

Interests in joint ventures arise when the Company enters contractual agreements that provide for the sharing among two or more parties of the continuing power to determine the strategic operating, investing and financing activities of an entity. The Company proportionately consolidates its interests in joint ventures. Under the proportionate consolidation method, the Company's pro rata share of each of the assets, liabilities, revenues and expenses subject to joint control are combined with similar items in the Company's consolidated financial statements.

f) Derivatives

The Company may enter into derivative instruments to mitigate exposures to interest rate fluctuations. Unless the derivative instruments qualify for hedge accounting, and management undertakes appropriate steps to designate them as such, they are designated as derivative instruments and recorded at fair value with realized and unrealized gains or losses arising from changes in the fair value recorded in operations.

Fair values for derivative instruments are determined using valuation techniques. The valuations use assumptions based on prevailing market conditions on the reporting date.

Realized gains and losses are recorded as a component of operating cash flows. Embedded derivatives identified in non-derivative instrument contracts are recognized separately unless closely related to the host contract.

g) Property, plant, equipment and other fixed assets

Property, plant and equipment are related to solar power plants under construction, furniture and other assets and are stated at cost less accumulated depreciation and any accumulated impairment charges. Depreciation is computed using the straight-line method with depreciation rates based upon the estimated useful life of the asset. For furniture and other assets the useful life is generally three years. Costs relating to property, plant and equipment in the course of construction are capitalized. Upon commissioning, these costs are amortized over the useful life of the asset. The Company does not capitalize interest related to the credit facilities for the construction of the solar power plants because the building period is normally less than twelve months.

h) Goodwill

Acquisitions of businesses are accounted for using the purchase method of accounting whereby all identifiable assets and liabilities are recorded at their fair values as at the date of acquisition. Any excess of the purchase price over the aggregate fair value of net assets plus or minus the amounts recognized for future income taxes is recorded as goodwill. Goodwill is identified and allocated to power project units by preparing estimates of the fair value of each project unit and comparing this amount to the fair value of the assets and liabilities and related future income tax balances of the project unit at the date of acquisition. Goodwill is not amortized.

Goodwill is tested annually for impairment or more frequently if current events or changes in circumstances indicate that the carrying value of the goodwill of a project unit may exceed its fair value. A two-step impairment test is used to identify potential impairment in goodwill and to measure the amount of goodwill impairment, if any. In the first step, the fair value of a project unit is compared with its carrying value, including goodwill. When the fair value of a project unit exceeds its carrying amount, goodwill of the project unit is considered not to be impaired and the second step of the impairment test is not undertaken. When the carrying amount of a project unit exceeds its fair value, the fair value of the project unit's goodwill (determined on the same basis as the value of goodwill is determined in a business combination) is compared with its carrying amount to measure the amount of the impairment loss, if any. When the carrying amount of project unit goodwill exceeds the fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

i) Intangible assets

Permitted projects and licenses acquired in a business combination are recognised at fair value at the acquisition date. Permitted projects and licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of permitted projects and licenses over their estimated useful lives, which are usually determined according to the term of the energy supply contract signed with the local grid operator for the solar power projects.

j) Foreign currency translation

The functional and reporting currency of the Company is the US dollar. The Company's wholly-owned subsidiaries are classified as integrated for foreign currency translation purposes. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at the balance sheet date. Non-monetary items are translated at historical rates. Revenues and expenses are translated at the average exchange rate during the year with the exception of depreciation and amortization, which is translated at the historical rate recorded for property, plant and equipment. Exchange gains and losses arising from the translation of monetary assets and liabilities are included in the determination of income for the current period.

During the year ended December 31, 2007, the Company reviewed the accounting for foreign currency transactions in Venezuela due to the increasing spread between the official rate and the implied market rate in Venezuela. It was determined that as a consequence of the rapid decline in the valuation of the Venezuelan Bolivar ("Bs") as reflected in the implied market for foreign currencies in Venezuela that the method of translation from Bolivars to US dollars using the official rate was no longer appropriate. As a result, management determined that Bolivar balances would be translated at implied market rates of 5.97 Bs/USD and 5.70 Bs/USD for the years ended December 31, 2009, and 2008, respectively.

k) Income taxes

Income taxes are calculated using the asset and liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantially enacted tax rates that are expected to be in effect when the differences are expected to reverse or losses are expected to be utilized. The effect on future income tax assets and liabilities of a change in the enacted tax rate is included in income in the period in which the change is substantially enacted. Future income tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, it is more likely than not that they will be realized.

l) Provision for pension obligations

The Company's Swiss subsidiary has a funded defined contribution pension plan that is managed through a private fund. The cost of the defined contribution pension plan is determined annually by independent actuaries, and the Swiss subsidiary pays an annual insurance premium. The fund provides benefits coverage to the employees in the event of retirement, death or disability. Etrion's Swiss subsidiary and its employees jointly finance retirement and risk benefit contributions. As per the agreement, the Swiss company contributes between 60% and 67% of the monthly pension costs, and the remaining balance is deducted from the employee's payroll. The investment risk is borne by the fund. According to articles of the pension fund regulations, the fund is responsible for remediating any technical underfunding that may exist at any given time. Etrion's Swiss subsidiary only records the pension costs as an expense and liability based on the insurance premium billed by the private fund. The pension expense recognized for this plan in 2009 and 2008 is equal to the Company's contribution of $34,940 and nil, respectively.

m) Stock-based compensation

The Company has a stock-based compensation plan that is described in note 12. The Company accounts for stock options using the fair value method. The fair value of stock-based compensation is determined using the Black-Scholes option pricing model and management's assumptions as disclosed in note 12. Upon exercise of stock options, consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital. The fair value of any stock options granted to directors, officers and employees is recorded as an expense over the vesting period of the options with a corresponding increase recorded to contributed surplus.

n) Earnings per share

Basic earnings or loss per share is computed by dividing net income or loss by the weighted-average number of common shares outstanding during the year. Diluted earnings or loss per share are computed using the "treasury stock method". The treasury stock method assumes that all "in the money" option or warrants are exercised and that the proceeds are used to purchase common shares of the Company at the average market price during the year. Loss per share is the same as basic loss per share since the exercise of options and warrants would be anti-dilutive (note 20).

o) Impairment of oil and gas investments

The Company evaluates the carrying amount of its interests in oil and gas companies when there is objective evidence that an investment may be impaired. When measuring and recognizing impairment losses, the Company compares the investment carrying amount against the Company's share participation in the sum of the

undiscounted cash flows expected to result from the production of proved reserves associated with its oil and gas interests. If the carrying amount exceeds the undiscounted cash flows, the Company then compares the carrying amount against the Company's share participation in the fair value of proved and probable reserves associated with its oil and gas interests. Under certain circumstances, management uses the "expected cash flows approach" to calculate the fair value. Under the expected cash flows approach, management compares the investment's carrying amount against its share participation in the sum of future cash flows resulting from the production of proved and probable reserves associated with its oil and gas interests. In this approach, management analyzes the cash flow projections using risk-adjusted probability (cash flow based on probability), considering historic payment experience from PetroCumarebo and Baripetrol and available current information from the latest meetings of their boards of directors. Accordingly, impairment losses are measured as the amount by which the carrying value of the investment exceeds the Company's share participation in the fair value.

p) Financial instruments

Financial instruments have been classified into one of the following five categories: held-for-trading assets or liabilities, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the instruments are de-recognized or impaired, with the exception of investments in equity instruments that do not have a quoted market price in an active market that are measured at cost. Loans and receivables, investments held to maturity and other financial liabilities are measured at amortized cost using the effective interest method. The Company made the following classifications:

Cash and cash equivalents	*Held-for-trading*
Accounts receivable and deposits	*Loans and receivables*
Investment in oil and gas companies	*Available-for-sale*
Accounts payable and accrued liabilities	*Other financial liabilities*
Exchange obligation	*Other financial liabilities*
Long-term debt	*Other financial liabilities*
Derivative instruments	*Other financial liabilities*

q) Changes in accounting policy and future accounting changes

Adoption of new accounting standards

Effective January 1, 2009, the Company adopted the following Canadian Institute of Chartered Accountants ("CICA") accounting standards:

Asset Recognition including Goodwill and Intangible Assets

On January 1, 2009, the Company adopted the amendments to the CICA Handbook Section 1000, "Financial Statement Concepts" and the new CICA Handbook Section 3064, "Goodwill and Intangible Assets", which replaced CICA Handbook Section 3062, "Goodwill and Other Intangible Assets". This guidance reinforces the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition. Under the amendments to CICA Handbook Section 1000, effective January 1, 2009, the deferral and matching of operating expenses over future revenues is no longer appropriate. The adoption of this new guidance had no impact on the reported results of the Company.

Financial Instruments – Disclosures

In 2009, the Company adopted the amendments to CICA Handbook Section 3862, "Financial Instruments – Disclosures". The amendments introduce a three-level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of the inputs used. In addition, the amendments require enhanced disclosures regarding the nature and extent of liquidity risk arising from financial instruments to which an entity is exposed. Comparative information is not required in the year of adoption. The impact of these amendments is disclosed in the financial statements.

Impairment of Financial Assets

In August 2009, the Accounting Standards Board ("AcSB") amended CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement", to achieve consistency with international standards on impairment of debt securities. The amendments changed the definition of a loan such that debt securities not quoted in an active market could be classified as a loan and measured at amortized cost. Impairment of debt securities classified as loans will be assessed and recorded using the incurred credit loss model of CICA Handbook Section 3025, "Impaired Loans". Debt securities that are classified as available-for-sale securities continue to be written down to their fair value through earnings when the impairment is considered other-than-temporary. However, the impairment loss can be reversed if the fair value subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized. The Company adopted these amendments for fiscal 2009, and the adoption of this new guidance had no impact on the reported results of the Company.

Emerging Issues Committee ("EIC") - 173

In January 2009, the CICA issued EIC - 173 - Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This standard is effective for the Company's fiscal year beginning January 1, 2009. Adoption of this EIC did not have a significant effect on the Company's financial statements.

Future accounting changes

Business Combinations

In January 2009, the CICA issued CICA Handbook Section 1582, "Business Combinations", Section 1601, "Consolidations", and Section 1602, "Non-controlling Interests". These sections replace the former CICA Handbook Section 1581, "Business Combinations" and Section 1600, "Consolidated Financial Statements" and establish new standards in respect of accounting for a non-controlling interest in a subsidiary.

CICA Handbook Section 1582 establishes standards for the accounting of a business combination. It provides the Canadian equivalent to International Financial Reporting Standard ("IFRS") 3, "Business Combinations" (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements. CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS International Accounting Standard 27, "Consolidated and Separate Financial Statements" (January 2008).

CICA Handbook Section 1601 and Section 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

r) Comparative information

Certain comparative figures have been reclassified to conform to the current year presentation.

3 Cash and cash equivalents

Cash and cash equivalents consisted of the following:

	2009 $	2008 $
Cash at Canadian banks	85,481	481,377
Cash at European banks	8,841,859	-
Cash at other foreign banks	194,158	1,294,450
Deposit notes at Canadian banks	14,326,280	24,891,510
	$23,447,778	$26,667,337

The Company's cash and cash equivalents are on deposit with highly-rated banks in Canada, Luxembourg, Switzerland, Italy, Curacao and Venezuela. Short-term deposits in US dollars were at variable annual interest rates from 0.15% to 2.20% in 2009 and from 0.80% to 3.08% in 2008.

4 Accounts receivable and deposits

The Company's accounts receivable and deposits are comprised of the following:

	2009 $	2008 $
Renewable energy segment		
Deposits with developers:		
Vega	118,848	-
Taurus	57,624	-
Value-added tax	170,098	-
Advances to suppliers and others	28,250	
	374,820	-
Oil and gas segment		
Chevron	-	5,762,698
Miller Insurance Services	-	226,953
PetroCumarebo	450,348	396,075
Value-added tax and other tax credits	1,164,569	1,189,432
Advances to employees	47,074	47,993
Advances to suppliers and others	44,650	77,366
	2,081,461	7,700,517
Doubtful allowance account	(308,520)	(320,398)
	$1,772,941	$7,380,119
Current portion	1,019,467	6,885,555
Long-term portion	753,474	494,564

Renewable energy segment

Deposits with Vega, Srl ("Vega") of €82,500 ($118,848) are related to advance payments on the purchase price of 100% of the share capital of one or more Italian companies 100% owned by Vega. After evaluating the project status as of December 2009, SRH decided to reject all projects according to the agreement. The carrying value of the account receivable from Vega is the amount that Vega is due to reimburse SRH in March 2010.

Deposits with Taurus Progetto Sole, Srl ("Taurus") of €40,000 ($57,624) are related to advance payments on the purchase price of 100% of the share capital of Smart Power, Srl, an Italian company with nearly permitted projects for the construction of photovoltaic solar plants in Lazio, Italy. According to the terms and conditions of the share purchase agreement, the advance payments will be deducted from the total purchase price at closing.

Oil and gas segment

Accounts receivable from PetroCumarebo include the cost of PFC Venezuela's personnel assigned to the technical operations of the oil and gas fields in Venezuela. In addition, this includes the outstanding balance of value-added tax paid by PFC Venezuela on behalf of PetroCumarebo during 2006 and 2007.

Value-added tax and other tax credits relate to accumulated credits from PFC Venezuela's former operating service agreements for the East and West Falcon blocks becoming a 40% investment in the mixed company, PetroCumarebo. Management expects that these balances will be recovered through compensation with certain tax assessments raised by the Venezuelan tax authority (note 14) and through sale at a discount. The portion that will not be recovered from the sale has been provided for and included in the doubtful allowance account.

On October 22, 2009, PFC Venezuela received Bs 1.5 million ($278,000) as a reimbursement for PFC Venezuela's cost of personnel assigned to PetroCumarebo for the calendar year 2008 through July 2009.

On January 19, 2009, PFC Venezuela received $5.8 million from Chevron as reimbursement for PFC Venezuela's past Cardon III expenses and accrued interest.

As at December 31, 2009, and 2008, the provision for doubtful accounts reflects the amount of value-added tax and other tax credits from the Venezuelan subsidiary that is considered to be uncollectible.

5 Investments

The Company's investments consisted of the following:

	2009 $	2008 $
PetroCumarebo	1,900,000	40,649,650
Baripetrol	8,100,000	13,397,340
	$10,000,000	$54,046,990

PetroCumarebo

Effective April 1, 2006, PFC Venezuela's operating service agreements for the East and West Falcon blocks became a 40% investment in the mixed company, PetroCumarebo.

In 2007, Etrion re-evaluated its relationship with PetroCumarebo and concluded that, for accounting purposes, effective January 1, 2007, Etrion's investment in PetroCumarebo did not meet the criteria for proportionate consolidation or equity method accounting. Accordingly, Etrion has accounted for PetroCumarebo using the cost method of accounting for the years ended December 31, 2009 and 2008.

Baripetrol

On February 1, 2008, Etrion acquired 100% of the issued and outstanding shares of Lundin Latina de Petroleos, S.A. ("Lundin Venezuela") from Lundin Petroleum BV ("Lundin BV") in consideration for the issuance of 57,254,505 common shares of the Company. Concurrent with the completion of the acquisition, Lundin BV subscribed for 6,665,995 units of the Company at a purchase price of CAD$0.80, for aggregate proceeds of $5.1 million. Each unit consists of one common share and approximately 0.75 warrants, such that an aggregate of 5,000,000 warrants were issued. Each whole warrant expires on February 1, 2010, and is exercisable for one common share of the Company on payment of CAD$1.20 per share. Lundin Venezuela was subsequently merged with PFC Venezuela and ceased to exist.

The value of the common shares issued by the Company was calculated using the average share price of common shares during the five days before, the day of and five days after the announcement of the acquisition. The excess of the purchase consideration over the adjusted carrying values of Lundin Venezuela's assets and liabilities was allocated to the 5% interest in Baripetrol.

PetroCumarebo and Baripetrol dividends

Under Venezuelan law, dividends can only be declared to the extent that a company has net and available profits as stated in a company's approved financial statements. Therefore, if there are sufficient net and available profits, subject to the prior approval of the shareholders, Etrion may receive annual dividends in US dollars, or quarterly loans against those projected dividends from Baripetrol and PetroCumarebo.

On August 14, 2009, the Company received $1.1 million from Baripetrol as an advance of dividends for operations during 2008 (note 9). During the year ended December 31, 2008, Lundin Venezuela received $2.9 million of dividends from Baripetrol for operations between January and December 2007. The $2.9 million in dividends was credited against the historical cost of the investment instead of being recognized as income during the year ended December 31, 2008, because the dividends were related to pre-acquisition earnings.

Impairment of investments in oil and gas companies in 2009

The Company evaluates the carrying amount of its investments when there is objective evidence that a financial asset might be impaired. Management conducted an impairment test of its oil and gas investments as at September 30, 2009, and concluded that due to the lack of significant cash flow generation and the political risk in Venezuela, the carrying amounts of the investments in PetroCumarebo and Baripetrol exceeded their fair value. The Company used primarily an expected cash flow approach that consisted of applying weighted probabilities to potential future cash flow scenarios to determine the fair value of the investments.

PetroCumarebo

Given the fact that no dividends have been received since the effective date of PetroCumarebo (April 1, 2006), and the only dividends that are expected to be received in the future correspond to the operations of 2007 and 2008, management has concluded, based on a risk-adjusted probability approach, that the fair value of the PetroCumarebo investment is approximately $1.9 million. Therefore, a write-down of $38.7 million was recorded in 2009.

Baripetrol

Management considered the history of dividends paid by Baripetrol, the advance on dividends received in the third quarter of 2009, as well as the dividends that are expected to be received in the future. Based on the current reserves and expected future oil and gas prices and the weighted probabilities of potential future cash flow scenarios, management concluded that the fair value of this investment is approximately $8.1 million. Therefore, a write-down of $5.3 million was recorded in 2009.

Management has conducted an update of the main assumptions used at September 30, 2009, to evaluate the impairment of the oil and gas investments in Venezuela and has also updated the impairment tests for its oil and gas investments as at December 31, 2009. Based on the results of management's analysis, considering all available information and evidence related to the operating and economic conditions of the oil and gas assets of PetroCumarebo and Baripetrol, management has concluded that the carrying amount of the investments in Baripetrol and PetroCumarebo as at December 31, 2009, does not exceed their fair value.

Impairment of investments in oil and gas companies in 2008

Management conducted an impairment test of its oil and gas investments for the year ended December 31, 2008, and concluded that the carrying amount of the investment in Baripetrol exceeded its fair value. The fair value calculation considers the Company's 5% share participation in the discounted future after-tax cash flow projections of the proved and probable reserves associated with Baripetrol's assets covering the period until the end of Baripetrol's contract. As a result, management recorded an impairment loss of $6.8 million against the carrying value of the investment, included in the statement of operations.

6 Property, plant and equipment

Property, plant and equipment consist of:

	December 31, 2009			December 31, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	190,246	-	190,246	-	-	-
Solar power plants	470,554	-	470,554	-	-	-
Furniture & fixtures	99,740	14,197	85,543	100,519	37,107	63,412
Leasehold improvements	12,386	2,009	10,377	152,825	1,119	151,706
Equipment	608,905	482,116	126,789	414,822	212,101	202,721
Vehicles	77,074	77,074	-	590,818	442,731	148,087
	$1,458,905	$575,396	$883,509	$1,258,984	$693,058	$565,926

7 Goodwill

The following table summarizes changes to the carrying value of goodwill:

	2009		
	Renewable Energy Segment	Oil and Gas Segment	Total
Goodwill, beginning of year	-	-	-
Goodwill from acquisitions	807,592	-	807,592
Goodwill, end of year	$807,592	-	$807,592

Goodwill resulting from the SRH acquisition was allocated to the Italian solar power project unit and is related to the current project in the Puglia region of southern Italy (note 1).

8 Intangible assets

The following table summarizes changes to the carrying value of intangible assets:

	December 31, 2009			December 31, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Permitted projects in Italy	5,924,738	-	5,924,738	-	-	-
	$5,924,738	-	$5,924,738	-	-	-

The aggregate fair value of the intangible assets recognized as a result of the acquisitions of SRH and SVE is $5.9 million. Future income tax liabilities generated upon recognition of the acquired assets were allocated to the intangible asset.

9 Accounts payable and accrued liabilities

The Company's accounts payable and accrued liabilities are comprised of the following:

	2009 $	2008 $
Suppliers	1,339,717	253,575
Audit and non-audit fees	268,513	223,916
Legal fees	86,846	48,923
Director fees	42,206	161,275
Employee benefits	336,932	178,347
Social contributions	37,424	53,378
Baripetrol	1,125,000	-
	$3,236,638	$919,414

On August 14, 2009, the Company received $1.1 million from Baripetrol as an advance of dividends for operations during 2008. This amount has been reflected as an advance until such time as the dividends are declared and paid.

10 Long-term debt and derivative instruments

Credit facility

As of December 31, the Company's long-term debt consisted of the following:

	2009 $	2008 $
Due to Centrobanca with a term of 17.5 years (35 repayments, beginning June 2011), a fixed rate of 3.9% on 90% of the principal and a floating 6-month Euribor rate on 10% of the principal, plus margin.	1,279,197	-
	$1,279,197	-

On November 4, 2009, SVE signed a credit facility agreement with Centrobanca, an Italian bank owned by UBI Group, for the construction of solar power plants in southern Italy. The non-recourse loan provided is for €17.2 million ($25.6 million). The debt facility has a term of 17.5 years and bears a hedged fixed interest rate of 3.9% on 90% of the principal and a floating rate of 6-month Euribor on the remaining 10% of principal, plus a margin of 250 basis points during the first five years, 270 basis points during the second five years and 300 basis points thereafter. The loan agreement has been classified as "other financial liabilities", which are initially recognized at fair value and subsequently measured at amortized cost. However, since it is a floating rate instrument, the application of the effective interest rate method is not necessary. At December 31, 2009, the Company had drawn €1.8 million of the credit facility, and the remaining balance is scheduled to be drawn during 2010.

The minimum principal repayment obligations are scheduled as follows:

	Total
2010	-
2011	524,621
2012	622,849
2013	598,655
2013 and thereafter	15,497,826
Total	**€17,243,951**

In addition, SVE paid transaction costs of €933,000 ($1.3 million) to legal and technical advisors in order to execute and sign the credit facility. Transaction costs have been deducted from the first draw down and are amortized using the straight-line amortization method over the period of the loan.

The most critical debt covenants in the facility agreement stipulate that after the start of operations and during the duration of the loan, SVE is obliged every June and December before the scheduled debt repayments to provide proof of meeting the following financial parameters: Loan Life Cover Ratio (LLCR) equal or above 1.05, Average Debt Service Cover Ratio (ADSCR) equal or above 1.10 and Debt to Equity Ratio equal or below 83%/17%.

The LLCR is calculated as the ratio between: (a) the sum of operational financial flows as defined in the loan agreement (taken at the end of each semester) until the final maturity date, discounted by the average applicable interest rate; and (b) the overall amount that has been drawn and not repaid on the base facility and the DSR Facility. The ADSCR is calculated as the ratio between (a) operational financial flows; and (b) debt service, referring to the twelve months before a calculation date. The debt to equity ratio is calculated as the ratio between: (a) the amount of the Base Facility and the DSR Facility that has been drawn and is outstanding; and (b) the amount of equity.

Derivative instrument

The following table summarizes the Company's net position for derivative instruments:

	December 31, 2009		**December 31, 2008**	
	Assets	Liability	Assets	Liability
Interest rate hedge	231,429	698,522	-	-
Less non-current portion	(231,429)	-	-	-
Current portion	-	$698,522	-	-

On November 4, 2009, SVE entered into a non-recourse loan agreement with Centrobanca for a total amount of €17.2 million to fund the construction of solar power plants in Puglia, Italy. Pursuant to that agreement, SVE also entered into a hedging contract to cap 90% of the interest at 3.9% for a duration of 17.5 years, consistent with the terms of the loan. The fair market value of the instrument results in a net liability of $467,093 as at

December 31, 2009, comprised of a current liability of $698,522 and a long-term asset of $231,429. The Company has recognized a corresponding loss of $467,093.

11 Shareholders' equity

The Company's authorized share capital comprises an unlimited number of common shares and preferred shares issuable in series. The common shares of Etrion are all of the same class, are voting and entitle shareholders to receive dividends as and when declared by the Board of Directors.

Issued shares and contributed surplus

Changes in common shares and contributed surplus were as follows:

	Number of shares	Amount $	Contributed surplus $
As at December 31, 2007	86,581,336	51,680,606	8,072,330
Private placement	6,665,995	5,110,000	-
Acquisition of Lundin Venezuela	57,254,505	43,890,000	-
Issuance of brokers' shares	569,284	436,400	-
Issuance of shares (for options exercised)	330,000	428,516	(151,918)
Agents' warrants	-	(1,867,386)	-
Guarantee fee paid to Lundin Petroleum	7,100,000	7,878,842	-
Stock-based compensation expense	-	-	797,366
As at December 31, 2008	158,501,120	107,556,978	8,717,778
Stock-based compensation expense	-	-	1,423,007
As at December 31, 2009	158,501,120	$107,556,978	$10,140,785

Acquisition of Lundin Venezuela and private placement

The Company issued 57,254,505 common shares at a price of CAD$0.80 per share in connection with the Lundin Venezuela acquisition. Concurrent with the acquisition of Lundin Venezuela, Lundin BV subscribed for 6,665,995 units of the Company at a purchase price of CAD$0.80 per unit, resulting in additional proceeds to the Company of approximately $5.1 million. Each unit consists of one common share and approximately 0.75 warrants, such that Lundin BV received an aggregate of 5,000,000 warrants. Each whole warrant expires on February 1, 2010, and is exercisable for one common share of the Company upon payment of CAD$1.20 per share. In connection with the acquisition and private placement, the Company paid a cash finder's fee in the amount of $543,600 and issued 569,284 common shares of the Company to an investment bank.

12 Stock-based compensation

The Company maintains a stock option plan whereby options can be granted to officers and certain employees. Stock options have a term of between five and ten years. Most stock options vest over three years and are

exercisable at the market prices for the shares on the dates that the stock options were granted. In certain circumstances, the Company's Board may authorize different vesting periods.

A summary of changes in the number of outstanding stock options during the periods is presented below:

	2009		2008	
	Share Options	**Weighted average exercise price CAD$**	**Share Options**	**Weighted average exercise price CAD$**
Outstanding – beginning of year	9,333,660	1.77	10,796,494	1.81
Granted	4,510,000	0.48	450,000	1.24
Exercised	-	-	(330,000)	0.85
Forfeited	(2,460,020)	2.20	(1,582,834)	1.99
Outstanding – end of year	11,383,640	1.17	9,333,660	1.77
Options exercisable – end of year	7,571,972	1.47	8,883,660	1.80

A summary of stock options outstanding at December 31, 2009, is set out below:

	Outstanding stock options		Exercisable stock options
Exercise price CAD$	**Number**	**Weighted average remaining contractual life**	**Number**
0.25	100,000	3.94 years	33,333
0.35	665,000	1.19 years	665,000
0.35	1,005,000	4.37 years	-
0.55	2,540,000	4.70 years	333,333
0.60	300,000	4.81 years	-
1.00	1,090,000	1.19 years	1,090,000
1.00	1,680,300	3.44 years	1,680,300
1.00	600,000	7.48 years	600,000
1.23	150,000	6.99 years	150,000
1.30	13,340	3.75 years	13,340
1.37	100,000	3.61 years	33,333
1.55	270,000	6.19 years	270,000
1.59	250,000	8.32 years	83,333
1.93	390,000	6.24 years	390,000
2.20	230,000	4.25 years	230,000
2.35	735,000	4.45 years	735,000
2.39	665,000	5.45 years	665,000
3.28	600,000	4.93 years	600,000
	11,383,640		7,571,972

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

	2009	2008
Risk-free interest rate	2.70%	3.26%
Expected volatility	103.28%	86.73%
Dividend yield rate	0.00%	0.00%
Weighted average expected life of options	5 years	5 years
Weighted average expected grant date fair value	CAD$0.42	CAD$0.51

During the year ended December 31, 2009, the Company recorded $530,983 in stock-based compensation expense compared to $797,365 during the year ended December 31, 2008.

13 Related party transactions and balances

Pacific Oil and Gas

Pacific Oil and Gas, LLC ("Pacific Oil and Gas") is controlled by Etrion's former Vice Chairman and current board member, Clarence Cottman, and Etrion's former President and Chief Executive Officer, William Gumma. The Company paid Pacific Oil and Gas for the years ended December 31, 2009 and 2008, $562,500 and $613,000, respectively. As at December 31, 2009 and 2008, the outstanding balance with Pacific Oil and Gas amounts to $36,218 and nil, respectively.

Lundin Services BV

Etrion receives technical services from Lundin Services BV, a wholly owned subsidiary of Lundin Petroleum. Lundin Petroleum indirectly owns 45% of the Company, and Lundin Petroleum's CEO, Ashley Heppenstall, is a member of the Board of Directors of Etrion. For the years ended December 31, 2009 and 2008, the Company paid Lundin Services BV for professional services $114,770 and $80,170, respectively. These payments for professional services include oil and gas geology, reserve and legal advice for Etrion's business development activities in the oil and gas segment. As at December 31, 2009 and 2008, the outstanding balance with Lundin Services BV amounts to $16,680 and nil, respectively.

Lundin Petroleum SA

Etrion also receives technical services from Lundin Petroleum SA, a wholly owned subsidiary of Lundin Services BV. For the years ended December 31, 2009 and 2008, the Company paid Lundin Petroleum SA for professional services $19,191 and nil, respectively. These payments for professional services include management and legal advice for Etrion's renewable energy business. As at December 31, 2009 and 2008, the outstanding balance with Lundin Petroleum SA amounts to $9,910 and nil, respectively.

These related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Lundin Petroleum AB

On April 7, 2008, the Company announced the signing of a binding sale and purchase agreement for the acquisition of 100% of the issued and outstanding shares of Anadarko Venezuela Company ("Anadarko Venezuela") from an affiliate of Anadarko Petroleum Corporation ("Anadarko Petroleum") for $200 million in cash. The agreement was subject to the approval of the Venezuelan Ministry of Energy and Petroleum ("MEP"), which was subsequently denied.

Lundin Petroleum AB ("Lundin Petroleum") provided a guarantee to Anadarko Petroleum for the full purchase price. In consideration for the guarantee, the Company agreed to issue 17.1 million common shares of the Company to Lundin Petroleum or one of its subsidiaries, subject to regulatory approval. On April 11, 2008, the Company issued 7.1 million of these shares to Lundin Petroleum, which, as of December 31, 2009, indirectly owned 45% of the issued and outstanding shares of the Company. The initial shares were expensed by the Company as stock-based financing fees over the effective period of the sale and purchase agreement. The remaining 10 million shares that would have been due at closing were not issued, in accordance with the agreement with Lundin Petroleum.

Marco Northland's exchange right and the Shareholders Agreement

Guaranteed floor

The SRH Shareholders Agreement provides Northland with a right to exchange his 10% equity interest in SRH, for a period of five years, for an equivalent fair value of shares in Etrion with a guaranteed floor on the exchange value of his interest of €4.0 million. Any portion of Northland's equity interest in SRH that has not been exchanged for shares of the Company at the end of the five-year period will be automatically exchanged. The Company has recognized a liability related to this exchange right of €4.0 million ($5.8 million) as at the balance sheet date and a related non-cash compensation expense of $5.5 million for the excess of this amount over the fair value of his 10% equity interest in SRH at the date of the acquisition. The Company will continue to recognize the fair value of the exchange right as a liability until such time as it is exercised or deemed to be exercised.

Carried interest on the initial investments

The Shareholders Agreement also provides that any additional funds required by SRH up to €17.7 million will be loaned by Etrion without a fixed term of repayment. The funds advanced to date by Etrion bear interest at 3.75% per annum. At the date of SRH's acquisition, the Company advanced €1.35 million ($1.91 million) to SRH as a loan. Under the agreement, Northland is entitled to 10% of any interest or principal repayments on such loan. At this time, the Company does not expect to make any repayments of principal or payment of interest on such loan in the foreseeable future. Should principal repayments or interest payments be expected, Northland's entitlement would be expensed over the expected period to repayment.

Carried interest on the additional investments

In addition, the Shareholders Agreement also provides for the additional issuance of in substance, at the money stock options on the date of future equity investments above the initial €17.7 million by Etrion to SRH.

Northland will receive at the money stock options of up to €8.0 million based on 10% of future equity investments by Etrion. That is, if the parent company invests €80.0 million in additional equity into the subsidiary, Northland will receive the equivalent of €8.0 million of at the money stock options at the date of the advance.

The Company has viewed these options as being granted, subject to a performance condition relating to future investments that it may make in its subsidiary, SRH. The grant date fair value of these options has been calculated as $6.6 million using a Black-Scholes model based on the following assumptions:

Risk-free interest rate	2.56%
Expected volatility	101.71%
Dividend yield rate	0.00%
Weighted average expected life of stock options	5 years
Weighted average grant date fair value	€0.08

The Company reassessed the performance condition as at December 31, 2009, and considered that it is likely that Etrion will invest €80.0 million in additional equity into the subsidiary over a period of 3.5 years from the balance sheet date and therefore has recorded a non-cash compensation expense of $0.9 million related to these in substance, at the money options. The total fair value of the stock options will be vested in accordance with the performance condition schedule over 3.5 years from the balance sheet date based on its probability of occurrence using the graded vesting attributed method. Under the graded method, each instalment of the graded-vesting feature is treated as a separate option, and the fair value for each instalment differs.

14 Other long-term liabilities

The Company has accrued an amount of Bs 2.8 million ($0.4 million) related to tax assessments in Venezuela from the National Integrated Customs and Tax Administration Service ("SENIAT"), the Venezuelan tax authority, with respect to the income tax returns for the years ended December 31, 2001 to 2004 plus interest and penalties of Bs 1.4 million ($0.3 million). The Company has filed several positions and has submitted compensation requests to SENIAT in order to off-set the owed amounts with VAT credits. However, as of December 31, 2009, the Company has not received a response from SENIAT. If the Venezuelan tax authority rejects the Company's request, the Company will have to pay the accrued amount as at December 31, 2009 of $0.7 million.

15 Financial instruments

Financial instruments and risk factors

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk (including interest rate, foreign currency and commodity price risk) and other risks. Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to accounts receivables from PetroCumarebo, value-added tax

receivable and other tax credits of the wholly-owned subsidiary with the Venezuelan tax authorities and third party credits (note 4). The Company has no concentration of credit risk. Value added tax receivables are collectable from the Venezuelan government as of December 31, 2009, excluding amounts already provided for. Management considers that the credit risk with respect to financial instruments attributable to value added tax receivables is moderate.

In addition, the majority of the Company's cash and cash equivalents are on deposit with highly-rated banks in Canada and Europe. A lesser amount is held in banks in Curacao and Venezuela (note 3).

Liquidity risk

At December 31, 2009, the Company had sufficient funds to settle current liabilities. All of the Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days, except for severance employee benefits, an advance from Baripetrol and an exchange obligation, and are subject to normal trade terms. The Italian subsidiary, SVE, has a credit facility that relates to a solar power project in southern Italy.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and oil prices.

(i) Interest rate risk

The Company's exposure to interest rate risk arises both from the interest rate impact on its cash and cash equivalents as well as on its debt facilities. Etrion has significant cash balances and short-term investments, with the latter having a variable annual interest rate from 0.80% to 3.08% (note 3). The Company's current policy is to invest excess cash in investment grade short-term deposit certificates issued by highly-rated banks. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company has floating rate debt instruments but the exposure to risk interest has been mitigated by an interest rate hedge agreement pursuant to the loan agreement (note 10).

(ii) Foreign currency risk

Etrion's functional currency is the US dollar. Any dividends from its oil and gas investments are in US dollars, and major purchases are transacted in US dollars. The Company maintains US dollar bank accounts in Canada and Curacao. The Company funds some of its subsidiary's operating and administrative expenses in Venezuelan Bolivars from its US dollar bank accounts.

During 2007, the Company's management determined that as a consequence of the rapid decline in the valuation of the Venezuelan Bolivar as reflected in the implied market for foreign currencies in Venezuela that the method of translation from Bolivars to US dollars using the official rate was no longer appropriate. The Company recognizes the foreign currency transactions of its Venezuelan subsidiary at the implied market rate in Venezuela, which had a spread of 178% over the official rate as of December 31, 2009. The Company has exposure to the volatility of the implied market rate in Venezuela that may result in significant foreign exchange gains or losses from its Venezuelan subsidiary.

The Company also funds its European subsidiaries' capital, operating and administrative expenses in Euros and Swiss Francs from its US dollar bank accounts. The Company has exposure to the volatility of the exchange rates of the Euro and Swiss Franc that may result in significant foreign exchange gains or losses from its European subsidiaries.

(iii) Commodity price risk

Oil price risk is the potential adverse impact on the Company's dividends from its oil and gas investments due to oil price movements and volatility. The Company closely monitors oil prices to determine the appropriate course of action to be taken by the Company, to the extent possible, through its participation on the board of directors of PetroCumarebo and in Baripetrol (note 5).

Sensitivity analysis

As of December 31, 2009, the carrying values of the Company's financial instruments approximate fair value. Based on management's knowledge and experience of the financial markets, Etrion considers the following movements are "reasonably possible" to have affected the twelve-month period ended December 31, 2009:

(i) Cash and cash equivalents are subject to floating interest rates. Sensitivity to a negative change in rates of one percentage point would have affected net loss by $61,500 for the year ended December 31, 2009 ($250,000 for the year ended December 31, 2008).

(ii) Balances in foreign currency of the Company's wholly-owned subsidiary in Venezuela may be subject to foreign currency exchange fluctuations. Sensitivity to a plus or minus change of ten percent of devaluation or revaluation of the implied market rates against the US dollar would have affected net loss by $99,702 or $81,574, respectively, for the year ended December 31, 2009 ($60,125 or $73,000, respectively, for the year ended December 31, 2008).

(iii) Balances in foreign currency of the Company's wholly-owned subsidiaries in Europe may be subject to foreign currency exchange fluctuations. Sensitivity to a plus or minus change of ten percent of devaluation or revaluation of the Euro market rates against the US dollar would have affected net loss by $472,293, for the year ended December 31, 2009.

(iii) Net loss would not be impacted by changes in average realized oil prices since the Company did not recognize any dividend income from its oil and gas investments in Venezuela for the twelve-month periods ended December 31, 2009 and 2008.

Valuation techniques that are used to measure fair value

The fair value hierarchy established by CICA Handbook Section 3862 – Financial Instruments – Disclosures ("Section 3862") establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means. Level 3 inputs are unobservable (supported by little or no market activity).

Assets (liabilities) measured at fair value on a recurring basis as at December 31, 2009 include:

	Level 2	Level 3
Short-term investments	14,326,280	-
Long-term debt	1,279,197	-
Derivative instruments	467,093	-
Investments in oil and gas companies	-	10,000,000
Total	**$16,072,570**	**$10,000,000**

The valuation techniques that are used to measure fair value are as follows:

Held for trading:

At December 31, 2009, the Company had short-term deposits in US dollars at variable annual interest rates from 0.15% to 2.20% in 2009 and from 0.80% to 3.08% in 2008. The investments are short-term in nature and are accordingly valued at cost plus accrued interest, which approximates fair value. The Company has classified the determination of fair value of these investments as level 2 since the valuation methodology used by the Company includes an assessment of assets in quoted markets with similar interest rates and terms to maturity.

Derivative instruments:

The fair value of derivative instruments is based on quoted market prices for comparable contracts and represent the amount the Company would have received from, or paid to, a counterparty to unwind the contract at the market rates in effect at the balance sheet date. Therefore, derivative instruments are classified within Level 2 of the fair value hierarchy established by Section 3862. As at December 31, 2009, the fair value of the Centrobanca hedge agreement was determined using a valuation technique in the absence of an active market and incorporating a risk-free rate and a credit risk as market inputs, and the Company has recognized €324,000 (equivalent to $467,000) as a loss on the interest hedge instrument.

Investments in oil and gas companies:

The fair value of these investments is based on a valuation technique that uses the expected cash flow approach. In this approach, management analyzes the cash flow projections using risk-adjusted probability (cash flow based on probability). This is classified within Level 3 of the fair value hierarchy established by Section 3862. The investment in oil and gas companies relates to the Company's participation in the share capital of oil and gas entities that are not quoted in an active market.

Other financial instruments:

The carrying values of cash, accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these financial instruments. The Centrobanca loan agreement qualifies as other financial liabilities, which are initially recognized at fair value and subsequently measured at amortized cost. However, since it is a floating rate instrument, the application of the effective interest rate method is not necessary, and the carrying value approximates its fair value.

16 Capital management

The Company's objectives when managing capital are to preserve cash and maintain flexibility between providing liquidity for investment opportunities in the renewable energy segment and providing acceptable returns to shareholders. These objectives are primarily met through cash management and continuous review of attractive acquisition and development opportunities. In order to maintain or adjust the capital structure, Etrion may obtain long-term debt, and/or project-based financing sufficient to maintain and expand its presence in Europe. There are no assurances that such financing will be available on terms acceptable to the Company.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate.

The Company defines capital as shareholders' equity, long-term debt (excluding non-recourse debt and transaction costs), short-term borrowings and non-controlling interests less cash and cash equivalents (excluding cash and cash equivalents from joint ventures and other interests not exclusively controlled by the Company). The Company currently has no externally imposed capital requirements.

17 Commitments

Development pipeline and fees

The operations of the Company require it to enter into share purchase agreements with local developers of renewable energy projects in Europe, pursuant to which, subject to certain conditions, local legal entities undertake to sell the Company one or more project companies following contribution in kind of permitted projects for the construction of solar plants. As at December 31, 2009, the Company had entered into certain agreements with Italian local developers for the acquisition of 100% of the outstanding shares of one or more project companies for a total purchase price of €1.3 million ($1.9 million), and the Company had advanced to the potential sellers a total of €40,000 ($58,000). According to the terms and conditions of the share purchase agreements, the advance payments will be deducted from the total purchase price at closing (note 4).

Project in southern Italy

According to the engineering, procurement and construction (EPC) contract signed between SVE and SunPower, SVE is to pay €4.2 million per megawatt for full turn-key construction of the plants in Puglia, Italy. Payments are due upon reaching specified milestones in the construction program. The project is scheduled to be finished by July 2010 and operational by September 2010. If construction is delayed or the solar plants are not performing up to the specified standard, SVE will receive pre-specified liquidated damage payments. Furthermore, SVE is protected by a "performance bank guarantee" worth a portion of the contract price as a credit line with SunPower's bank. If the construction is delayed or cannot be started due to permit or technical issues, SVE can cancel the contract without any penalty.

18 Income tax

During the year ended December 31, 2009, Etrion recorded a current income tax expense of $92,698 related to taxable income in the Swiss subsidiary. During the year ended December 31, 2008, Etrion recorded no income tax expense as the Company had no taxable income for the period.

The reconciliation of income taxes computed at Canadian statutory tax rates to the Company's income tax expense for the years ended December 31, 2009 and 2008, is as follows:

	2009 $	2008 $
Net loss before taxes	(58,964,450)	(23,190,057)
Combined statutory income tax	29.0%	29.5%
	(17,099,691)	(6,841,067)
Increase (decrease) resulting from:		
Difference in foreign tax rates	(2,327,051)	(151,976)
Expiry of prior year tax losses	2,842,951	-
Non taxable transactions	(628,205)	1,343,732
Non deductible expenses	14,290,887	5,818,122
Other	233,642	(772,892)
Change in valuation allowance	2,920, 393	604,081
Income tax expense	$92,698	-

PFC Venezuela files its Venezuelan income tax return using the Venezuelan Bolivar as the reporting currency in accordance with the Venezuelan income tax law that also provides regular adjustments for inflation until December 31, 2009. PFC Venezuela recognized the effects of the inflation in non-monetary assets and liabilities through the application of the General Consumer Price Index, based on procedures established in Venezuelan tax legislation. This adjustment for inflation is considered to be a taxable gain or, in the case of deflation, a deductible loss in determining the taxable income. Since the majority of PFC Venezuela's net monetary assets are held in US dollars, and the tax return is filed in Venezuelan Bolivars, foreign currency exchange adjustments will produce either a taxable gain or a deductible loss. The variation between the Venezuelan statutory tax rate of 34% and the income tax rate presented in these financial statements is due to the adjustments required for inflation and foreign currency translation.

Temporary differences and loss carry-forwards that give rise to future income tax assets and liabilities as at December 31, 2009 and 2008 are as follows:

	2009 $	2008 $
Future income tax assets		
Loss carry-forwards	3,175,997	2,842,951
Investments	2,587,347	-
	5,763,344	2,842,951
Valuation allowance	(5,763,344)	(2,842,951)
	-	-
Future income tax liability		
Intangible asset acquired from SRH	877,177	-
Intangible asset acquired from SVE	819,614	-
	1,696,791	-
Net future income tax liability	**$1,696,791**	**-**

The expiry date by jurisdiction of the loss carry-forwards as at December 31, 2009, are as follows:

Year of expiry	**Canada**	**Venezuela**	**Italy**	**Luxembourg**	**Total**
2010	-	957,934	-	-	957,934
2011	-	-	-	-	-
2012	-	982,611	-	-	982,611
2013	-	-	-	-	-
2013 and thereafter	4,540,146	-	253,044	4,882,594	9,675,784
	$4,540,146	**$1,940,545**	**$253,044**	**$4,882,594**	**$11,616,329**

19 Segment disclosure

The Company has two reportable operating segments: the Oil and Gas Segment, which includes the investments in Venezuela, and the Renewable Energy Segment, which includes the solar power projects in Europe. The accounting policies of the segments are the same as that described in the summary of significant accounting policies (note 2). The following table shows the contribution from each of the Company's operating segments and includes inter-segment transactions. The inter-segment transactions are eliminated in order to arrive at consolidated results in accordance with Canadian GAAP.

By generation source:	**Oil and Gas Segment**		**Renewable Energy Segment**		**Total**	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
For the year ended December 31,						
Revenue	-	-	-	-	-	-
Loss before undernoted	(6,872,927)	(8,676,207)	-	-	(6,872,927)	(8,676,207)
Depreciation and amortization	(205,679)	(112,964)	(14,342)	-	(220,021)	(112,964)
General and administrative	(5,454,797)	(8,217,813)	(1,941,066)	-	(7,395,863)	(8,217,813)
Impairment of oil and gas assets	(44,046,991)	(6,824,974)	-	-	(44,046,991)	(6,824,974)
Interest income (expense)	336,902	890,377	(32,793)	-	304,109	890,377
Other income (expense)	(96,646)	473,364	118,146	-	21,500	473,364
Foreign exchange gain (loss)	(419,504)	(721,840)	132,340	-	(287,164)	(721,840)
Loss on derivative instruments	-	-	(467,093)	-	(467,093)	-
Income tax expense	-	-	(92,628)	-	(92,628)	-
Net loss	(56,759,642)	(23,190,057)	(2,297,436)	-	(59,057,078)	(23,190,057)
Capital assets as at December 31,	10,139,366	54,612,916	7,476,473	-	17,615,839	54,612,916
Total assets	$26,271,861	$88,898,638	$17,107,614	-	$43,379,475	$88,898,638

20 Earnings per share

	2009	2008
Net loss	($59,057,078)	($23,190,057)
Weighted average number of outstanding shares	158,501,120	150,945,412
Basic and diluted loss per share*	($0.37)	($0.15)

* The calculation of diluted loss per common share excludes options, warrants outstanding and the exchange obligation as the effect would be anti-dilutive.

21 Subsequent events

On January 28, 2010, PFC Venezuela received Bs 244,000 ($40,809) as a reimbursement for PFC Venezuela's cost of personnel assigned to PetroCumarebo from August 2009 through October 2009.

On February 1, 2010, Lundin BV's 5,000,000 Etrion warrants expired unexercised (note 5).

On February 3, 2010, the first payment was made by SVE to SunPower Corp. for 15% of the total EPC cost to build three of the four solar plants in Puglia, Italy.

On February 15, 2010, SVE received approval for the "Visco Sud" tax credit from the Italian tax authorities. According to local Italian income tax law, companies with solar energy projects with installed capacity of up to 1MW may apply for a tax credit equal to 20% of the project costs. SVE's Visco Sud tax credit is €4.1 million and may be credited against income taxes arising on future taxable income following connection of the solar power plants to the Italian electricity grid. The tax credit does not expire.

On February 23, 2010, the Toronto Stock Exchange ("TSX") announced a review of Etrion's listing status as a result of the Company's change of business focus from oil and gas activities to renewable energy. The TSX review arose in connection with the Company's proposed application for a second listing on the NASDAQ OMX exchange in Sweden.

On March 5, 2010, following receipt of the Visco Sud tax credit approval, SRH paid an additional €240,000 according to the terms of the SVE share purchase agreement.

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

Clancy Cottman
Director

Executive Management

Marco A. Northland
Chief Executive Officer and Director

Garrett Soden
Chief Financial Officer

Michael Sommer
Vice President Business Development

Giovanni Diana
General Manager, Italy

Fernando Alvarez-Bolado
Vice President Engineering and Construction

etrion

Corporate Information

Auditors:
PricewaterhouseCoopers
Toronto, Ontario

Bankers:
HSBC Bank
Toronto, Ontario

Legal Counsel:
Macleod Dixon
Toronto, Ontario

Registrar and Transfer Agent:
Computershare
Vancouver, British Columbia

Exchange Listing:
Toronto Stock Exchange
Ticker symbol "ETX"

Securities Filings:
SEDAR, www.sedar.com

Etrion Website:
www.etrion.ch

Etrion Corporation
Rue du Stand 60-62
1204 Geneva
Switzerland

Phone +41 22 715 20 90
Fax +41 22 715 20 99
Email: info@etrion.ch
Web: www.etrion.ch