



MANAGEMENT'S DISCUSSION AND ANALYSIS

THREE AND SIX MONTHS ENDED JUNE 30, 2014

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INTRODUCTION

This management's discussion and analysis ("MD&A") for Etrion Corporation ("Etrion" or the "Company" and, together with its subsidiaries, the "Group") is intended to provide an overview of the Group's operations, financial performance and current and future business environments. This MD&A, prepared as of August 6, 2014, should be read in conjunction with the Company's condensed consolidated interim financial statements and accompanying notes for the three and six months ended June 30, 2014. Financial information is reported in United States ("US") dollars ("\$/"). However, as the Group operates in Europe, the Americas and Asia, certain financial information has been reported in Euros ("€"), Swedish krona ("SEK"), Canadian dollars ("CAD\$") and Japanese yen ("JPY"). At June 30, 2014, the €/ \$ exchange rate was 1.36 (2013: 1.30 / December 31: 1.38) and the average €/ \$ exchange rate for the six months ended June 30, 2014, was 1.37 (2013: 1.31). The capacity of power plants in this document is described in approximate megawatts ("MW") on a direct current basis, also referred to as megawatt-peak.

This MD&A contains forward-looking information based on the Company's current expectations, estimates, projections and assumptions. This information is subject to a number of risks and uncertainties, many of which are beyond the Company's control. Users of this information are cautioned that actual results may differ materially from the information within. For information on material risk factors and assumptions underlying the forward-looking information, refer to the "Cautionary Statement Regarding Forward-Looking Information" on page 23.

SECOND QUARTER 2014 HIGHLIGHTS

	Three months ended		Six months ended	
	June 30 2014 \$'000	June 30 2013 \$'000	June 30 2014 \$'000	June 30 2013 \$'000
Revenue ⁽¹⁾	17,764	18,414	26,131	26,736
Gross profit	10,641	11,246	11,509	12,757
EBITDA ⁽²⁾	14,217	14,312	17,990	19,053
EBITDA margin (%)	80%	78%	69%	71%
Net loss	(1,434)	(238)	(9,642)	(5,694)
Adjusted net income before non-recurring and non-cash items ⁽²⁾	5,206	4,805	4,325	5,058
Operating cash flow ⁽³⁾	15,160	6,137	752	7,096
Working capital ⁽⁴⁾	179,939	15,420	179,939	15,420

Notes:

- (1) Revenues are received in Euros and have been translated at the average €/ \$ exchange rate of 1.37 for the three and six months ended June 30, 2014 (2013: 1.31). The average price per kilowatt-hour ("kWh") received during the three months ended June 30, 2014, decreased to \$0.50 from \$0.51 in the comparable period of 2013, primarily due to a reduction in the spot market price ("Market Price") in Italy to €0.06 per kWh from €0.06 per kWh, offset by foreign exchange rate variations.
- (2) Refer to "Financial Review – Financial Results" on pages 11 and 12 for an overview of the Group's adjusted net income before non-recurring and non-cash items and earnings before interest, tax, depreciation and amortization ("EBITDA"), both of which are non-International Financial Reporting Standard ("IFRS") measures and therefore do not have standardized meanings prescribed by IFRS and may not be comparable to similar measures disclosed by other companies and the basis for calculation has not changed and has been applied consistently over all periods presented. Adjusted net income/loss before non-recurring and non-cash items is a useful metric to quantify the Company's ability to generate cash before extraordinary and non-cash accounting transactions recognized in the financial statements (the most comparable IFRS measure is net income/loss as reconciled on page 11). In addition, EBITDA is useful to analyze and compare profitability between companies and industries because it eliminates the effects of financing and certain accounting policy decisions, while adjusted EBITDA is also useful because it excludes expenses that are expected to be non-recurring (the most comparable IFRS measure is net income/loss as reconciled on page 12).
- (3) Operating cash flow refers to cash flows before investing and financing activities and the effects of foreign exchange rate differences (refer to "Financial Review – Financial Results" on page 11).
- (4) Working capital refers to current assets less current liabilities (refer to "Financial Review – Financial Results" on page 11).

OPERATIONAL HIGHLIGHTS

- **Production:** Produced 35.4 million (2013: 37.1 million) and 51.9 million (2013: 53.1 million) kWh of solar electricity from 17 solar power plants in Italy during the three and six months ended June 30, 2014, respectively.
- **Construction:** Accelerated construction of the 70 MW solar park in the North of Chile ("Project Salvador"), being built by SunPower Corporation ("SunPower"), owned initially 70% by Etrion, 20% by Total Energie Developpement ("Total"), a subsidiary of Total S.A., and 10% by Solventus Chile SpA ("Solventus"). Project Salvador is now expected to be operational by the end of 2014, three months ahead of schedule.
- **Development:** Through the partnership with Hitachi High Technologies Corporation ("Hitachi High-Tech"), a subsidiary of Hitachi Ltd. ("Hitachi"), to develop utility-scale solar projects in Japan, the Group has advanced on the development of its first two projects, the 24.7 MW Shizukuishi solar project ("Shizukuishi") and the 9.3 MW Mito solar project ("Mito"). Financial close for both projects is expected before the end of September 2014, with construction to commence shortly thereafter.

FINANCIAL HIGHLIGHTS

- **Revenue:** Generated revenues of \$17.8 million (2013: \$18.4 million) and \$26.1 million (2013: \$26.7 million) during the three and six months ended June 30, 2014, respectively.

SECOND QUARTER 2014 HIGHLIGHTS (CONTINUED)

FINANCIAL HIGHLIGHTS (CONTINUED)

- **EBITDA:** Recognized EBITDA of \$14.2 million (2013: \$14.3 million) and \$18 million (\$19.1 million) during the three and six months ended June 30, 2014, respectively.
- **Bond Financing:** Completed a bond issue in April 2014 of €80 million in senior secured bonds in the Norwegian bond market at 8% annual interest with a 5-year maturity, a portion of which was used to redeem the previous €60 million corporate bonds.
- **Cash and Working Capital:** Closed the second quarter of 2014 with a cash balance of \$197.9 million (December 2013: \$94.9 million) and positive working capital of \$180 million (December 2013: \$47.5 million).

BUSINESS REVIEW

BUSINESS OVERVIEW

Etrion is an independent power producer that builds, owns and operates utility-scale power generation plants. The Company currently owns and operates 17 solar photovoltaic ("PV") power plants in Italy with approximately 60 MW of installed capacity. During 2013 and 2014, the Group made significant progress in its development activities in Chile and entered Japan, positioning Etrion as a global platform for growth.

Once new projects in Chile and Japan are connected to the electricity grid, Etrion will have a diversified solar power generation platform in terms of both revenues and geography. Revenues are expected from Feed-in-Tariff ("FiT") contracts, long-term power purchase agreements ("PPAs") and spot market/merchant pricing. Etrion's geographic footprint will cover Europe, the Americas and Asia with counter-seasonal revenues from the northern/southern hemisphere profile.

Etrion's strategy is focused on:

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

The Company's business model focuses on six key drivers for success: (1) stable revenues; (2) abundant renewable resources; (3) high wholesale electricity prices; (4) low equipment cost and operating expenses; (5) available long-term financing; and (6) low cost of debt.

The Company is listed on the Toronto Stock Exchange in Canada and the NASDAQ OMX Stockholm exchange in Sweden ("NASDAQ OMX"). Etrion is based in Geneva, Switzerland with offices in Rome, Italy, Tokyo, Japan and Santiago, Chile.

OPERATIONS REVIEW

OPERATING PERFORMANCE

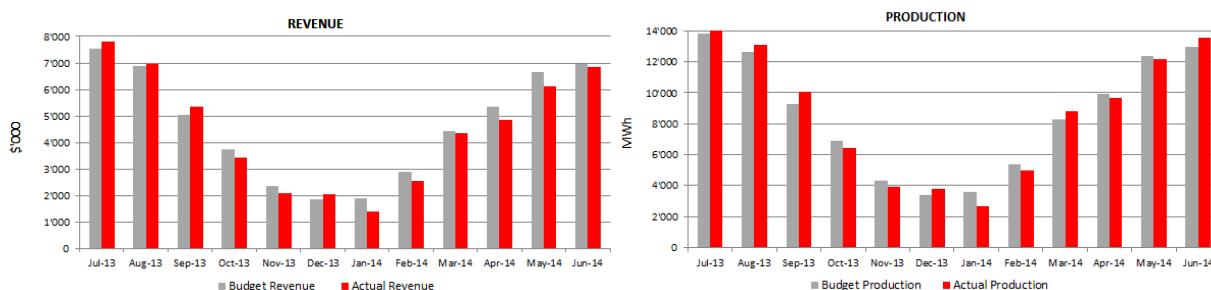
During the three and six months ended June 30, 2014, the Group recognized revenues from seven solar power projects in Italy (Cassiopea, Helios ITA-3, Centauro, Helios ITA, Etrion Lazio, SVE and Sagittario), comprising 17 solar power plants. Solar-related revenues are subject to seasonality over the year due to the variability of daily sun hours in the summer versus winter months. However, on an annual basis, expected solar irradiation in Italy varies less than 10% year-over-year. The impact of seasonality on the Group's business should decrease over time as the Group secures additional projects in Chile, given the northern and southern hemisphere profile.

BUSINESS REVIEW (CONTINUED)

OPERATIONS REVIEW (CONTINUED)

OPERATING PERFORMANCE (CONTINUED)

The following summarizes the Group's actual and budgeted revenue and production information over the last twelve months and the effects of seasonality:



The Group has substantial revenues and cash flows from operations, and its current platform of approximately 60 MW continues to perform above plan, producing approximately 1% more electricity than budgeted over the last twelve months, primarily attributable to increased power plant availability.

Performance against prior year

Actual production and revenue for the three and six months ended June 30, 2014, compared to the same period of 2013 are as follows:

	Three months ended June 30				Six months ended June 30			
	2014	2013	Variance	%	2014	2013	Variance	%
Production ⁽¹⁾ (MWh)	35,407	37,141	(1,734)	(4.7%)	51,865	53,097	(1,232)	(2.3%)
Revenue (\$'000)	17,764	18,414	(650)	(3.5%)	26,131	26,736	(605)	(2.3%)

Note:

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

During the three and six months ended June 30, 2014, the Group produced 4.7% and 2.3% less electricity, respectively, as compared to the same periods of 2013, due primarily to lower solar irradiation in 2014. The Group's revenues were impacted by a reduction in the Market Price in Italy and foreign exchange rate variations as outlined below.

Pricing information for the three and six months ended June 30, 2014, compared to the same period of 2013 is as follows:

Three months ended June 30:

	2014			2013		
	MWh	Price ⁽¹⁾ (\$/kWh)	Revenue (\$'000)	MWh	Price ⁽¹⁾ (\$/kWh)	Revenue (\$'000)
FiT revenues (based on actual production) ⁽²⁾	35,407	0.45	16,061	37,141	0.43	16,037
Market Price revenues (based on evacuated production) ⁽²⁾	34,732	0.05	1,703	36,467	0.07	2,377
Total revenue			17,764			18,414

Six months ended June 30:

	2014			2013		
	MWh	Price ⁽¹⁾ (\$/kWh)	Revenue (\$'000)	MWh	Price ⁽¹⁾ (\$/kWh)	Revenue (\$'000)
FiT revenues (based on actual production) ⁽²⁾	51,865	0.45	23,470	53,097	0.43	22,966
Market Price revenues (based on evacuated production) ⁽³⁾	50,881	0.05	2,661	52,156	0.07	3,770
Total revenue			26,131			26,736

Notes:

- Revenues are received in Euros and have been translated at the average €/€ exchange rate of 1.37 for the three and six months ended June 30, 2014 (2013: 1.31).
- The FiT is received for each kWh of electricity produced and is based on a fixed price over a 20-year period. The FiT revenues during the three and six months ended June 30, 2014, were positively impacted by a strengthening of the Euro against the US dollar.
- The Market Price is received in addition to the FiT and is based on evacuated production (i.e., electricity produced less transmission losses). The Market Price revenues during the three and six months ended June 30, 2014, were adversely impacted by a reduction to the Market Price in Italy (€0.04 per kWh in 2014 compared to €0.06 per kWh in 2013), partially offset by a strengthening of the Euro against the US dollar.

In Italy, the Group receives revenues from two sources (both received in Euros): (1) the FiT system, which is secured by 20-year contracts with the Italian government, as outlined on pages 8 and 9 within "Business Review – Solar Market Overview"; and (2) the Market Price which is subject to the spot price fluctuations in Italy.

BUSINESS REVIEW (CONTINUED)

OPERATIONS REVIEW (CONTINUED)

OPERATING PROJECTS

A summary of the Group's operating solar power projects, all located in Italy, at June 30, 2014, is as follows:

Project	Region	Sites	Capacity (MW)	Technology	Contractor	Panels	Inverters	Connection date	FIT ⁽¹⁾
Cassiopea (Montalto)	Lazio	1	24.0	Single axis	SunPower	SunPower	SMA	Nov-09	€0.353
Helios ITA-3 (Brindisi, Mesagne)	Puglia	2	10.0	Single axis	ABB	Yingli	Bonfiglioli	Aug-11	€0.250
Centauro (Montalto)	Lazio	1	8.8	Single axis	SunPower	SunPower	SMA	Jul-10	€0.346
Helios ITA (Brindisi, Mesagne) ⁽²⁾	Puglia	7	6.4	Single axis	Solon/ABB	Solon	Santerno	Dec-09	€0.353
Etrion Lazio (Borgo Piave, Rio Martino)	Lazio	2	5.3	Fixed-tilt	Phoenix	Trina	SMA	Apr-11	€0.346
SVE (Oria, Matino, Ruffano)	Puglia	3	3.0	Single axis	SunPower	SunPower	Siemens	Dec-10	€0.346
Sagittario (Nettuno)	Lazio	1	2.6	Fixed-tilt	Phoenix	Trina	SMA	Aug-11	€0.250
Total		17	60.0						

Notes:

- (1) FIT per kWh based on connection date. In Italy, revenues are derived from the FIT system and Market Price, both received for each kWh of electricity produced. The weighted average remaining contract life is approximately 16.3 years.
- (2) Six of the Helios ITA solar parks benefit from the 2009 FIT of €0.353 per kWh, and the seventh park built benefits from the 2010 FIT of €0.346 per kWh.

Refer also to "Business Review – Solar Market Overview" on pages 8 and 9 for an overview of the renewable energy market in Italy.

Cassiopea

The Cassiopea project in Montalto di Castro in the Lazio region of Italy consists of one ground-mounted solar PV park with a total capacity of 24 MW. The solar park was connected to the electricity grid in November 2009. The Cassiopea solar park was built by SunPower, a US-based solar panel manufacturer and installer, using high efficiency SunPower modules mounted on single axis trackers with power conversion completed through SMA inverters. Cassiopea has an operations and maintenance ("O&M") contract with SunPower, including preventive and corrective maintenance. The solar park benefits from the 2009 FIT of €0.353 per kWh plus the Market Price for the second quarter of 2014 of approximately €0.04 per kWh.

Helios ITA-3

The Helios ITA-3 project in Puglia, Italy, consists of two ground-mounted solar PV parks: Brindisi (5 MW) and Mesagne (5 MW). Both parks were completed and connected to the electricity grid in August 2011. The Helios ITA-3 solar parks were built by ABB S.p.A. ("ABB"), the Swiss power and automation technology group, using Yingli polycrystalline PV modules mounted on SunPower single axis trackers with power conversion completed through Bonfiglioli inverters. Helios ITA-3 has an O&M contract with ABB, including preventive and corrective maintenance. Both solar parks benefit from the August 2011 FIT of €0.25 per kWh plus the Market Price for the second quarter of 2014 of approximately €0.04 per kWh.

Centauro

The Centauro project in Montalto di Castro in the Lazio region of Italy consists of one ground-mounted solar PV park with a total capacity of 8.8 MW. The solar park was connected to the electricity grid in July 2010. The Centauro solar park was built by SunPower using high efficiency SunPower modules mounted on single axis trackers with power conversion completed through SMA inverters. Centauro has an O&M contract with SunPower, including preventive and corrective maintenance. The solar park benefits from the 2010 FIT of €0.346 per kWh plus the Market Price for the second quarter of 2014 of approximately €0.04 per kWh.

Helios ITA

The Helios ITA project in Puglia, Italy, consists of seven ground-mounted solar PV parks with a total capacity of 6.4 MW. Six of the solar parks were connected to the electricity grid in December 2009, and the last park built was connected in December 2010. The Helios ITA solar parks were built by Solon S.p.A. ("Solon"), a German solar panel manufacturer and installer, using single axis trackers with Solon polycrystalline modules and Santerno inverters. The original O&M contractor was Solon. In July 2012, the Group entered into a new O&M contract, including preventive and corrective maintenance, with ABB. Six of the Helios ITA solar parks, just under 1 MW each for a total of 5.8 MW, benefit from the 2009 FIT of €0.353 per kWh plus the Market Price for the second quarter of 2014 of approximately €0.04 per kWh. The last park built (0.6 MW) benefits from the 2010 FIT of €0.346 per kWh plus the Market Price for the second quarter of 2014 of approximately €0.04 per kWh.

BUSINESS REVIEW (CONTINUED)

OPERATIONS REVIEW (CONTINUED)

OPERATING PROJECTS (CONTINUED)

Etrion Lazio

The Etrion Lazio project in Lazio, Italy, consists of two ground-mounted solar PV parks: Borgo Piave (3.5 MW) and Rio Martino (1.8 MW). Both solar parks were completed in December 2010 and were connected to the electricity grid in April 2011. The Etrion Lazio solar parks were built by Phoenix Solar (“Phoenix”), a German PV system integrator, using Trina poly-crystalline PV modules installed on fixed-tilt structures with power conversion completed through SMA inverters. Etrion Lazio has an O&M contract with Phoenix, including preventive and corrective maintenance. Both solar parks benefit from the 2010 FiT of €0.346 per kWh plus the Market Price for the second quarter of 2014 of approximately €0.04 per kWh.

SVE

The SVE project in Puglia, Italy, consists of three ground-mounted solar PV parks: Oria (1 MW), Martino (1 MW) and Ruffano (1 MW). All three solar parks were connected to the electricity grid in December 2010. The SVE solar parks were built by SunPower using high efficiency SunPower modules mounted on single axis trackers with power conversion completed through Siemens inverters. SVE has an O&M contract with SunPower, including preventive and corrective maintenance. All three solar parks benefit from the 2010 FiT of €0.346 per kWh plus the Market Price for the second quarter of 2014 of approximately €0.04 per kWh.

Sagittario

The Sagittario project in Lazio, Italy, consists of one ground-mounted solar PV park with a total capacity of 2.6 MW. The solar park was completed and connected to the electricity grid in August 2011. The Sagittario solar park was built by Phoenix using Trina poly-crystalline PV modules installed on fixed-tilt structures with power conversion completed through SMA inverters. Sagittario has an O&M contract with Phoenix, including preventive and corrective maintenance. The solar park benefits from the August 2011 FiT of €0.25 per kWh plus the Market Price for the second quarter of 2014 of approximately €0.04 per kWh.

DEVELOPMENT ACTIVITIES

CHILE

Etrion is pursuing renewable energy projects in Latin America, with an initial focus on Chile, where solar power generation is competitive with traditional sources of energy. Chile has an investment grade AA- rating (per Standard & Poor's), an abundance of renewable resources (i.e., strong solar irradiation), high wholesale electricity prices and a large energy demand, making it an ideal country in which Etrion can grow and diversify through new opportunities without the need for subsidies. Etrion's business development activities in Chile are focused on solar power generation that is carried along two of the existing electricity networks, Sistema Interconectado del Norte Grande (“SING”) and Sistema Interconectado Central (“SIC”), which provide service to industrial users who are particularly concerned with electricity shortages as a result of the high growth in energy demand. Together the SING and SIC account for approximately 99% of Chile's total electricity production. Northern Chile has among the highest solar irradiation in the world. Refer to “Business Review – Solar Market Overview” on page 9 for an overview of the renewable energy market in Chile.

A summary of the Group's projects under construction and development in Chile is as follows:

Project	Region	Sites	Gross	Net	Technology	Contractor	Status	Expected start of construction	Expected start of operations	Contract regime
			Capacity (MW)	Capacity (MW)						
Salvador ⁽¹⁾	Atacama	1	70	49	Single axis	SunPower	Construction	Q4-2013 ⁽²⁾	Q4-2014	Merchant
Aguas Blancas	Antofagasta	3	72	72	Single axis	TBD	Development	Q2-2015	Q2-2016	PPA/merchant
Las Luces	Atacama	1	27	27	Single axis	TBD	Development	Q2-2015	Q2-2016	PPA/merchant
Total		5	169	148						

Notes:

- (1) Etrion will initially own 70% of Project Salvador. Following payback of the original equity contribution of approximately \$42 million, Etrion's ownership will decrease to 50.01%, expected to occur in June 2019. After 20 years of operation, Etrion's ownership will decrease to 0%.
- (2) Construction activities began in December 2013.

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

BUSINESS REVIEW (CONTINUED)

DEVELOPMENT ACTIVITIES (CONTINUED)

CHILE (CONTINUED)

Project Salvador

In September 2013, Etrion signed a purchase agreement with Total and Solventus to build, own and operate a 70 MW solar project in the Atacama region in northern Chile. Pursuant to the purchase agreement, Etrion, Total and Solventus have acquired 70%, 20%, and 10% interests, respectively, in the project company.

The total project cost of approximately \$200 million is being financed 70% through non-recourse project debt provided by the Overseas Private Investment Corporation (“OPIC”), the US Government development finance institution, and 30% through equity funded by Etrion, Total Energie and Solventus, based on their respective ownership interests, resulting in a total capital commitment from Etrion of approximately \$42 million.

Project Salvador is being built using SunPower high-efficiency, single-axis tracker technology. Construction related activities commenced in December 2013, and the solar project is expected to be operational by the end of 2014, three months ahead of schedule.

Project Salvador will initially operate on a merchant basis where the electricity produced will be sold on the spot market and delivered to the SIC electricity network, with the ability to secure future PPAs. The solar power plant will be built on 133 hectares leased from the Chilean government through a long-term concession. Once operational, Project Salvador is expected to produce approximately 200 gigawatt-hours (“GWh”) of electricity per year.

Aguas Blancas

The Aguas Blancas solar project was originally an 8.8 MW solar PV park under development in the Antofagasta region of Chile to sell part of its electricity to the Aguas Blancas iodine mine in northern Chile through a 15-year take-or-pay, US dollar-denominated PPA with Atacama Minerals Chile S.C.M (“Atacama Minerals”). This project is currently on hold because the mine postponed its production expansion plans due to the collapse of iodine prices. The Company decided to incorporate this project into a larger 72 MW development project within five miles of the mine to serve this and other future opportunities while obtaining better economies of scale. Aguas Blancas is owned 100% by the Group.

Aguas Blancas is expected to have all licenses and permits obtained by the first quarter of 2015, at which point the Group would be in a position to commence construction provided it secures PPAs with industrial clients for most of its capacity and secures the necessary debt financing. This project is expected to be operational within 12 months from the date construction commences.

The total estimated project cost for the 72 MW project, including costs related to the licenses, permits, development and construction, is \$155 million, which is expected to be financed by up to 85% non-recourse project debt with the remaining equity portion to be funded by the Group.

Las Luces

Etrion plans to build, own and operate a 27 MW solar project in the Atacama region in northern Chile (“Las Luces”). Las Luces was originally expected to be 22 MW, but the permits have recently been expanded to 27 MW. Las Luces is owned 100% by the Group.

Las Luces is expected to have all licenses and permits obtained by the first quarter of 2015, at which point the Group would be in a position to commence construction provided it secures PPAs with industrial clients for most of its capacity and secures the necessary debt financing. This project is expected to be operational within 12 months from the date construction commences.

The total estimated project cost, for the 27 MW project, including costs related to the licenses, permits, development and construction, is \$58 million, which is expected to be financed by up to 85% non-recourse project debt with the remaining equity portion to be funded by the Group.

JAPAN

Etrion is pursuing renewable energy projects in Asia, with an initial focus on Japan, due to the attractive solar FIT program and low financing costs. Japan is one of the largest solar PV markets in the world with over 14 gigawatts (“GW”) of installed capacity with a national solar power target of 28 GW by 2020. The Japanese government has instituted a strong mandate to increase the use of renewable energy in Japan’s energy mix in order to reduce the country’s reliance on nuclear.

BUSINESS REVIEW (CONTINUED)

DEVELOPMENT ACTIVITIES (CONTINUED)

JAPAN (CONTINUED)

In 2012, the Group and HTT signed a development agreement to develop a pipeline of solar assets in Japan. The companies are targeting to reach at least 100 MW of utility-scale solar projects, under construction or shovel-ready by 2015. Under this agreement, both parties provide the key functions necessary to successfully develop, build and operate solar projects in Japan (including, but not limited to, obtaining the relevant permits and authorizations to build and operate the solar power facilities, developing relationships with local utilities and land owners, engineering, procurement and construction (“EPC”), securing non-recourse project finance, as well as operations, maintenance and asset management services). Shizukuishi and Mito will be the first solar projects to be built under this arrangement.

Refer to ‘Business Review – Solar Market Overview’ on pages 9 and 10 for an overview of the renewable energy market in Japan.

A summary of the Group’s projects under development in Japan is as follows:

Project	Region	Sites	Gross Capacity (MW)	Net Capacity (MW)	Technology	Contractor	Status	Expected start of construction	Expected start of operations	Contract regime
Shizukuishi ⁽¹⁾	Iwate	1	24.7	21.5	Fixed-tilt	Hitachi High-Tech ⁽²⁾	Development	Q3-2014	Q4-2016 ⁽³⁾	20-year FiT
Mito ⁽¹⁾	Ibaraki	5	9.3	8.1	Fixed-tilt	Hitachi High-Tech ⁽²⁾	Development	Q3-2014	Q4-2015	20-year FiT
Total		6	34.0	29.6						

Notes:

- (1) Etrion’s ownership is expected to be approximately 86.9% in Shizukuishi and 87% in Mito, with the remaining interests being held by Hitachi High-Tech.
- (2) Shizukuishi and Mito will be built by HTT using Hitachi Power System’s proven EPC capabilities.
- (3) Shizukuishi will connect through a utility which requires up to 29 months for grid construction. Assuming this process is accelerated, the solar project could be operational by the end of 2015.
- (4)

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

Shizukuishi

Shizukuishi is a 24.7 MW utility-scale solar PV power plant to be built in the Iwate region of Japan. The project will benefit from the 20-year FiT of ¥40 per kWh (approximately \$0.39 per kWh) paid by the Ministry of Economy, Trade and Industry (“METI”) in Japan. The total project cost of approximately ¥8.9 billion (approximately \$87.8 million) is expected to be financed 80% through non-recourse project debt from a Japanese bank with the remaining approximate 20% equity portion to be funded by the Group and HTT based on their respective ownership interests of 86.9% and 13.1%.

Shizukuishi will be built by HTT using Hitachi Power Systems’ proven EPC capabilities. Construction is scheduled to commence in the third quarter of 2014 and the solar project is expected to be operational by the end of 2016. The solar power plant will be built on 51 hectares of land leased from an individual landowner and the facility will connect through the Tohoku Electric Power Co., Inc. utility. Shizukuishi will also enter into a long-term fixed price O&M agreement with Hitachi High-Tech.

Once operational, Shizukuishi is expected to produce approximately 25 GWh of solar electricity per year.

Mito

Mito is a 9.3 MW utility-scale solar PV power plant to be built in the Ibaraki region of Japan. The project will benefit from the 20-year FiT of ¥40 per kWh (approximately \$0.39 per kWh) paid by the Japanese government. The total project cost of approximately ¥3.4 billion (approximately \$33.5 million) is expected to be financed approximately 80% through non-recourse project debt from a Japanese bank with the remaining approximate 20% equity portion to be funded by the Group and HTT based on their respective ownership interests of 87% and 13%.

Mito will be built by HTT using Hitachi Power System’s proven EPC capabilities. Construction is scheduled to commence during the third quarter of 2014 and the solar project is expected to be operational by the end of 2015. The solar power plant will be built on 27 hectares of land leased from an individual landowner and the facility will connect through the Tokyo Electric Power Company utility. Mito will also enter into a long-term fixed price O&M agreement with Hitachi High-Tech.

Once operational, Mito is expected to produce approximately 10 GWh of solar electricity per year.

BUSINESS REVIEW (CONTINUED)

SOLAR MARKET OVERVIEW

The market for renewable energy sources, including solar, biomass, wind, hydro and bio fuels, is driven by a variety of factors, such as legislative and policy support, technology, macroeconomic conditions, pricing and environmental concerns. The overall goal for the solar energy market is to reach grid parity, whereby the price of solar energy is competitive with traditional sources of electricity, such as coal, natural gas and nuclear energy. Solar technology cost has dropped dramatically and continues to decrease. In addition, solar energy has reached grid parity in certain parts of the world where solar irradiation and electricity prices are high (e.g., Chile). As the cost of solar technology continues to decrease, new potential markets are expected to develop in areas where solar electricity is price-competitive with other sources of energy.

Solar power plants are an important source of renewable energy. They have very low operating and maintenance costs with minimal moving parts. The technology is essentially silent, emission-free and scalable to meet multiple distributed power requirements. Energy generated from the sun consists of both energy from PV cells (i.e., PV energy) and energy generated from solar collectors (i.e., thermal energy or heat).

The key drivers for growth within the renewable energy sector are:

- Increasing global demand for energy due to population and economic growth combined with finite oil and gas reserves;
- Improving technologies and accelerated cost reductions for renewable energy;
- Increased concern about long-term climate change and focus on reducing carbon emissions from energy generation using fossil fuels;
- Political commitment at national and regional levels to support the development and use of renewable energy sources; and
- Attractive government incentives, such as FiT, capital subsidies and tax incentives in markets that have not yet reached grid parity.

ITALIAN MARKET

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

The Italian FiT entails a 20-year commitment from the government to purchase 100% of solar electricity production at a premium constant rate based on the connection date. Since 2005, the Italian FiT for new projects has been revised to account for the decreasing cost to build solar power plants. A summary of the actual FiT received by the Group for its ground-mounted solar PV power projects connected in 2009, 2010 and 2011 is as follows:

	2011	2010	2009
FiT (€/kWh)	€0.250	€0.346	€0.353
Duration	20 years	20 years	20 years

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

On June 24, 2014, the Italian government published a new decree outlining, among other things, certain proposed changes to the current Italian FiT regime. This decree, effective June 25, 2014, is subject to Parliamentary approval, which is expected to take place within 60 days of the decree's publication, during which time, the new decree may be amended or fully rejected. The final implementation of the law is uncertain, and it is possible that changes to the new decree may be introduced by Parliament. Etrion is working closely with legal advisors and project lenders to assess the implications of the proposed decree.

The proposed changes would impact the revenues received by solar power producers by reducing the annual FiT incentive to be paid by the GSE. Specifically, the proposal outlines a reduction of the original FiT, effective January 2015, between 17% and 25%, depending on the remaining incentive period, offset by an extension of the incentive period from 20 to 24 years. Alternatively, solar power producers can voluntarily elect a flat 8% reduction of the FiT for the remaining incentive period without an extension. In addition, the new decree introduces certain changes to the payment of the FiT, whereby, effective July 2014, approximately 10% of such payment by GSE would be delayed until June of the following year.

BUSINESS REVIEW (CONTINUED)

SOLAR MARKET OVERVIEW (CONTINUED)

ITALIAN MARKET (CONTINUED)

Although the proposed changes will impact the revenues, EBITDA and cash flows of the Group going forward, they do not impact the carrying value of its assets and liabilities as reported at June 30, 2014.

CHILEAN MARKET

Chile's energy demand has been growing rapidly since 1990 due to increased power consumption by the mining sector, the country's single largest industry, and large urban areas such as the capital city, Santiago. The increased demand combined with scarce fossil fuel resources has made the country a net importer of energy and module prices are at an all-time low, with a continued decrease in price due to technology improvements and scale. The energy sector is largely privatized, which enables energy producers to enter into bilateral agreements directly with industrial clients. In addition, the mining growth in Chile is expected to result in \$66.4 billion of investment by 2020, with very limited sources of energy to meet demand.

Due to the size of Chile's economy and its well-established capital markets, manufacturers and finance providers are available to support the growing demands for energy consumption. Today, mini-hydro is Chile's primary source of renewable energy. However, there is a large opportunity for growth in the solar sector, especially in the northern part of the country where more than 90 per cent of the electricity consumption is by industrial users, such as mining operations. In September 2013, the Chilean government passed the so-called "20/25" law, requiring 20 per cent of electricity to be generated from renewable sources by 2025 (an increase from the previous "clean energy" law requiring 10 per cent of electricity to be generated from renewable sources by 2024) demonstrating strong support for the development and use of renewable energy sources.

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

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

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

- **SING** – Sistema Interconectado del Norte Grande, the northern grid, accounts for approximately 25.4% of total electricity production in Chile. The SING is primarily served by thermoelectric plants.
- **SIC** – Sistema Interconectado Central, the central grid, accounts for approximately 74% of the total electricity production in Chile and serves approximately 90% of its population. The SIC is primarily served by hydroelectric plants, in addition to diesel and thermoelectric plants. Project Salvador, which will initially operate on a spot market/merchant basis, is located along the SIC.
- **Aysen** – located in southern Chile, this mainly hydro network accounts for approximately 0.2% of total electricity production in Chile.
- **Magallanes** – located in the most southern part of Chile, this hydro network accounts for approximately 0.4% of total electricity production in Chile.

Etrion's business development activities are focused on solar power generation that is carried along the SING and SIC, which provide service to industrial users who are particularly concerned with electricity shortages as a result of strong growth in energy demand. Together, the SING and SIC account for more than 99% of Chile's total electricity production.

JAPANESE MARKET

Japan is the world's third largest energy consumer and today is the third largest solar market, based on the expected installed capacity in 2014 of 24.7 GW. The use of solar power in Japan has accelerated since the Japanese FiT scheme for renewable energy was introduced in July 2012 to help offset the loss of nuclear power caused by the Fukushima disaster, which has led to most of the nation's 48 reactors being idled due to safety concerns. While current renewable energy usage remains low (currently 7.2% of total primary energy), Japan is planning to accelerate further renewable energy development. By the end of 2013, Japan had installed more than 14 GW of solar capacity with a national solar power target of 28 GW by 2020.

BUSINESS REVIEW (CONTINUED)

SOLAR MARKET OVERVIEW (CONTINUED)

JAPANESE MARKET (CONTINUED)

Japan is a relatively low-risk jurisdiction with an attractive solar FiT program and low financing costs. In order to encourage solar power generation, Japan has implemented an attractive 20-year FiT program of JPY 40 per kWh (\$0.38 per kWh) for projects secured by March 31, 2013, and JPY 36 per kWh (\$0.34 per kWh) for projects secured by March 31, 2014. The government has also announced various other policy actions including regulatory easing, tax incentives and energy sector reforms.

OTHER MARKETS

Incentive structures for solar power generation currently exist in many markets (including Europe, North America and Asia) and are a key driver for market growth. The objective of these incentives is to increase investment in renewable energy generation in order to deliver greater efficiency and cost reductions.

In addition, as the cost of renewable power generation continues to decrease, the Group will be able to compete with traditional sources of electricity in new markets with abundant renewable resources (i.e., strong solar irradiation) and high electricity prices. Specifically, the Group is currently evaluating opportunities to expand into other regions of Latin America, where it will enter into long-term PPAs with industrial users or local utilities.

FINANCIAL REVIEW

FINANCIAL RESULTS

SECOND QUARTER SELECTED FINANCIAL INFORMATION

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

	Three months ended		Six months ended	
	June 30	June 30	June 30	June 30
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Revenue	17,764	18,414	26,131	26,736
Gross profit	10,641	11,246	11,509	12,757
Net loss⁽¹⁾	(1,434)	(238)	(9,642)	(5,694)
Adjustments for non-recurring items ⁽²⁾ :				
- Operating expenses	-	-	343	-
- General and administrative expenses	-	-	461	-
- Loss on derecognition of liability	1,033	-	1,033	-
- Other expenses	-	234	-	627
Adjusted net loss before non-recurring items⁽³⁾	(401)	(4)	(7,805)	(5,067)
Adjustments for non-cash items:				
- Depreciation and amortization	5,279	5,015	10,551	10,095
- Fair value movements (derivative financial instruments)	266	(358)	1,450	(290)
- Share-based payment expense	62	152	129	320
Adjusted net income before non-recurring and non-cash items⁽³⁾	5,206	4,805	4,325	5,058
Net loss	(1,434)	(238)	(9,642)	(5,694)
Adjustments for:				
- Net income tax expense/(recovery)	2,242	3,173	(135)	1,140
- Depreciation and amortization	5,279	5,015	10,551	10,095
- Loss/(gain) on asset disposal	-	16	-	(1)
- Share-based payment expense	62	152	129	320
- Net finance costs	7,828	6,204	16,747	13,283
- Other (income)/expenses	(187)	234	(187)	627
- Income tax paid	(2,462)	(986)	(2,462)	(1,029)
- Changes in working capital	3,832	(7,433)	(14,249)	(11,645)
Operating cash flow	15,160	6,137	752	7,096

Notes:

- (1) Net loss for the period includes both the net loss from continuing operations and the net loss attributable to owners of the Company and non-controlling interests. Basic and diluted loss per share for the three and six months ended June 30, 2014 was \$0.005 (\$0.001) and \$0.031 (\$0.028), respectively.
- (2) Non-recurring items incurred during the six months ended June 30, 2014, related to non-recurring maintenance activities included within operating expenses, compensation related expenses associated with the bond refinancing, recruitment related activities and development costs not eligible for capitalization included within general administrative expenses. During the three months ended June 30, 2014, the Group recognized a loss of \$1 million associated with the early redemption of the previous €60 million corporate bonds.
- (3) Adjusted net loss before non-recurring items and adjusted net income before non-recurring and non-cash items are non-IFRS measures and therefore do not have standardized meanings prescribed by IFRS and may not be comparable to similar measures disclosed by other companies. The basis for calculation has not changed and has been applied consistently over all periods presented. Adjusted net income/loss before non-recurring and non-cash items is a useful metric to quantify the Company's ability to generate cash before extraordinary and non-cash accounting transactions recognized in the financial statements. The most comparable IFRS measure is net income/loss (as reconciled in the table above).

	June 30	December 31
	2014	2013
	\$'000	\$'000
Non-current assets	432,230	401,410
Current assets	224,214	116,841
Total assets	656,444	518,251
Non-current liabilities	562,506	460,209
Current liabilities	44,275	69,380
Total liabilities	606,781	529,589
Working capital (current assets less current liabilities)	179,939	47,461
Dividends declared	-	-

QUARTERLY SELECTED FINANCIAL INFORMATION

Selected consolidated financial information, prepared in accordance with IFRS (presented in \$'000 except for per share data) is as follows:

	2014		2013				2012	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	17,764	8,367	7,761	19,414	18,414	8,322	7,385	18,341
Net (loss)/income ⁽¹⁾	(1,434)	(8,208)	(5,667)	1,056	(238)	(5,456)	(7,292)	379
Basic and diluted (loss)/earnings per share	(0.005)	(0.025)	(0.027)	0.005	(0.001)	(0.027)	(0.036)	0.002

Note:

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

FINANCIAL REVIEW (CONTINUED)

FINANCIAL RESULTS (CONTINUED)

QUARTERLY SELECTED FINANCIAL INFORMATION (CONTINUED)

Solar-related revenues experience seasonality over the year due to the variability of daily sun hours in the summer versus the winter months, resulting in lower revenues in the first and fourth quarter of 2014 and 2013. The impact of seasonality on the Group's business should decrease over time as the Group secures additional solar power projects in Chile. In Italy, revenues are received in Euros and have been translated at the average €//\$ exchange rate of the corresponding period. Consequently, revenues expressed in US dollars may fluctuate according exchange rate variations.

SECOND QUARTER RESULTS

EBITDA

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

	2014			2013		
	Renewable energy ⁽¹⁾ \$'000	Corporate ⁽¹⁾ \$'000	Total \$'000	Renewable energy ⁽¹⁾ \$'000	Corporate ⁽¹⁾ \$'000	Total \$'000
Three months ended June 30:						
Revenue	17,764	-	17,764	18,414	-	18,414
Operating expenses ⁽²⁾	(1,934)	-	(1,934)	(2,241)	-	(2,241)
General and administrative expenses ⁽²⁾	(336)	(1,464)	(1,800)	(387)	(1,240)	(1,627)
Other income/(expenses)	180	7	187	(318)	84	(234)
EBITDA⁽³⁾	15,674	(1,457)	14,217	15,468	(1,156)	14,312
Non-recurring items ⁽⁴⁾ :						
- Operating expenses	-	-	-	-	-	-
- General and administrative expenses	-	-	-	-	-	-
- Other (income)/expenses	-	-	-	318	(84)	234
Adjusted EBITDA⁽³⁾	15,674	(1,457)	14,217	15,966	(1,240)	14,546
Six months ended June 30:						
Revenue	26,131	-	26,131	26,736	-	26,736
Operating expenses ⁽²⁾	(4,250)	-	(4,250)	(4,066)	-	(4,066)
General and administrative expenses ⁽²⁾	(647)	(3,431)	(4,078)	(717)	(2,273)	(2,990)
Other income/(expenses)	180	7	187	(318)	(309)	(627)
EBITDA⁽³⁾	21,414	(3,424)	17,990	21,635	(2,582)	19,053
Non-recurring items ⁽⁴⁾ :						
- Operating expenses	343	-	343	-	-	-
- General and administrative expenses	-	461	461	-	-	-
- Other expenses	-	-	-	318	309	627
Adjusted EBITDA⁽³⁾	21,757	(2,963)	18,794	21,953	(2,273)	19,680

Notes:

- The renewable energy segment includes only the Group's operating solar power projects. All other revenues, expenses, assets and liabilities are included within the corporate segment, which includes all corporate overhead.
- Operating expenses and general and administrative expenses shown here, exclude depreciation and amortization for the purposes of calculating EBITDA.
- EBITDA and adjusted EBITDA (that excludes non-recurring items recognized during the relevant periods) are non-IFRS measures and therefore do not have standardized meanings prescribed by IFRS and may not be comparable to similar measures disclosed by other companies. The basis for calculation has not changed and has been applied consistently over all periods presented. EBITDA is useful to analyze and compare profitability between companies and industries because it eliminates the effects of financing and certain accounting policy decisions, while adjusted EBITDA is also useful because it excludes expenses that are expected to be non-recurring. The most directly comparable IFRS measure is net income/loss (excluding depreciation, amortization, finance income/cost and income tax expense/recovery).
- Refer to "Financial Review – Financial Results" on page 11 for an overview of the non-recurring items that occurred during the relevant periods.

Revenue

	Three months ended		Six months ended	
	June 30 2014 \$'000	June 30 2013 \$'000	June 30 2014 \$'000	June 30 2013 \$'000
FiT revenue	16,061	16,037	23,470	22,966
Market Price revenue	1,703	2,377	2,661	3,770
Total revenue	17,764	18,414	26,131	26,736

Revenues decreased by \$0.7 million (3.5%) and \$0.6 million (2.3%) during the three and six months ended June 30, 2014, respectively, compared to the same periods of 2013, due to lower solar irradiation and a reduction in the Market Price in Italy, offset by foreign exchange rate differences (due to a strengthening of the Euro against the US dollar).

FINANCIAL REVIEW (CONTINUED)

FINANCIAL RESULTS (CONTINUED)

SECOND QUARTER RESULTS (CONTINUED)

Operating expenses

	Three months ended		Six months ended	
	June 30	June 30	June 30	June 30
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
O&M costs	995	868	1,914	1,623
Operating personnel costs	301	311	539	517
Depreciation and amortization (operating solar power projects)	5,189	4,925	10,372	9,912
Taxes (other than income tax)	578	438	1,063	868
Insurance	97	110	194	221
Land lease	54	53	109	106
Other operating expenses	(91)	463	431	732
Total operating expenses	7,123	7,168	14,622	13,979

During the three months ended June 30, 2014, operating expenses remained relatively stable, with a 1% decrease compared to the same period of 2013, due primarily to a reduction in other operating expenses, offset by an increase in O&M costs, property taxes and foreign exchange rate differences (due to a strengthening of the Euro against the US dollar).

During the six months ended June 30, 2014, operating expenses increased by \$0.6 million (4.6%) compared to the same period of 2013, primarily due to non-recurring operations and maintenance related expenses, an increase in the property taxes and foreign exchange rate differences (due to a strengthening of the Euro against the US dollar).

The Group's solar power projects (included within property, plant and equipment) and licenses and permits (included within intangible assets) are depreciated and amortized over 20 years.

General and administrative expenses

	Three months ended		Six months ended	
	June 30	June 30	June 30	June 30
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Salaries and benefits	424	523	1,474	928
Board of Directors fees	126	24	156	46
Share-based payment expense	62	152	129	320
Corporate and professional fees	833	546	1,429	1,058
Listing, filing and marketing expenses	131	111	252	195
Depreciation and amortization (corporate assets)	96	118	219	239
Office lease expenses	90	90	179	183
Office, travel and other general and administrative expenses	128	151	419	203
Total general and administrative expenses	1,890	1,715	4,257	3,172

During the three months ended June 30, 2014, general and administrative expenses increased by \$0.2 million (10%) compared to the same period of 2013, primarily due to a change in the cash component of the Board of Director's compensation, additional professional fees and foreign exchange rate differences (due to a strengthening of the Euro against the US dollar). During the period, \$0.7 million (2013: \$0.5 million) of internally-generated costs were capitalized within intangible assets directly attributable to the Group's business development activities in Chile and Japan.

During the six months ended June 30, 2014, general and administrative expenses increased by \$1.1 million (34%) compared to the same period of 2013, primarily due to higher salaries and benefits and travel-related expenses, the result of a higher headcount during the period and a compensation related expense associated with the bond refinancing, a change in the cash component of the Board of Director's compensation, recruitment-related activities, certain development costs not eligible for capitalization and foreign exchange rate differences (due to a strengthening of the Euro against the US dollar). During the period, \$1.3 million (2013: \$0.9 million) of internally-generated costs were capitalized within intangible assets directly attributable to the Group's business development activities in Chile and Japan.

FINANCIAL REVIEW (CONTINUED)

FINANCIAL RESULTS (CONTINUED)

SECOND QUARTER RESULTS (CONTINUED)

Net finance costs

	Three months ended		Six months ended	
	June 30	June 30	June 30	June 30
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Interest expense associated with non-recourse project loans ⁽¹⁾	4,625	4,869	9,372	9,835
Interest expense associated with corporate borrowings ⁽¹⁾	3,784	1,823	5,802	3,633
Net fair value movements associated with derivative financial instruments	266	(358)	1,450	(290)
Foreign exchange	(790)	(28)	180	208
Other net finance costs	245	56	412	126
Net finance costs	8,130	6,362	17,216	13,512

Note:

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

During the three and six months ended June 30, 2014, net finance costs increased by \$1.8 million (28%) and \$3.7 million (27%), respectively, compared to the same periods of 2013, primarily due to an increase in interest associated with corporate borrowings, specifically the loss associated with the early redemption of the Company's previous €60 million corporate bonds and additional interest related to the new €80 million corporate bonds, and an increase to the net fair value losses associated with the Group's interest rate swap contracts. During the three and six months ended June 30, 2014, the Group capitalized \$1.3 million and \$2.1 million, respectively, of borrowing costs associated with credit facilities obtained to finance the construction of Project Salvador.

All of the Group's non-recourse project loans in Italy are hedged through interest rate swap contracts all of which qualified for hedge accounting during the periods.

Income tax expense

	Three months ended		Six months ended	
	June 30	June 30	June 30	June 30
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Current income tax expense	3,804	4,806	729	1,793
Deferred income tax recovery	(1,562)	(1,633)	(864)	(653)
Total income tax expense/(recovery)	2,242	3,173	(135)	1,140

During the three months ended June 30, 2014, income tax expenses decreased by \$0.9 million (29%), compared to the same period of 2013, primarily due to a lower taxable income generated by the Group's operating solar projects (due primarily to a reduction in revenues) and a reduction to the tax rate in Italy. Furthermore in 2014, the incremental tax associated with the so-called "Robin Hood" tax legislation in Italy was reduced from 10.5% to 6.5%, reducing the corporate income tax rate to 34% for 2014 and beyond for the solar projects affected by this additional tax. This tax rate is applicable to five of the Group's seven operating solar projects in Italy.

During the six months ended June 30, 2014, the Group recognized an income tax recovery of \$0.1 million (2013: income tax expense of \$1.1 million) due to taxable losses generated by the Group's operating solar projects during the period and the reduction to the Robin Hood tax in Italy that took place in 2014.

FINANCIAL POSITION

During the six months ended June 30, 2014, the Group's total equity increased by \$59.8 million from a net liability position of \$12.3 million at December 31, 2013, to a net asset position of \$47.5 million at June 30, 2014, primarily due to the private placement completed in January 2014, an increase to the written call option associated with Project Salvador, share-based payment expenses, stock options being exercised and foreign currency translation adjustments, offset by the net loss reported by the Group during the period and unrealized fair value losses recognized within other reserves associated with the Group's derivative financial instruments (i.e., interest rate swap contracts).

The Group's total equity at June 30, 2014 was negatively impacted by fair value losses of \$19.2 million recognized within other reserves associated with the Group's derivative financial instruments (i.e., interest rate swap contracts) that are not expected to be realized (i.e., the interest rate swap contracts will be held until the maturity of the associated non-recourse project loans). Excluding these fair value losses, the Group's total equity at June 30, 2014, would have been \$66.7 million.

FINANCIAL REVIEW (CONTINUED)

FINANCIAL POSITION (CONTINUED)

LIQUIDITY AND FINANCING (CONTINUED)

At June 30, 2014, the Group had cash and cash equivalents of \$197.9 million (December 31, 2013: \$94.9 million) and positive working capital (i.e., current assets less current liabilities) of \$179.9 million (December 31, 2013: \$47.5 million). This working capital includes the fair market value of interest rate swap contracts that are classified as current liabilities in accordance with IFRS but are not expected to be settled in cash in the next 12 months. Excluding these derivative financial liabilities that are not expected to be settled in the short-term, the Group's working capital would have been \$189.3 million.

The Group's cash and cash equivalents at June 30, 2014 included restricted cash of \$133.8 million (December 31, 2013: \$86.4 million), held at the project level, comprised of the following:

- Restricted cash and cash equivalents of \$20.6 million (December 31, 2013: \$32.5 million) held at the project level that is restricted by the lending banks in Italy for future repayment of interest and principal and working capital requirements related to the specific projects. This cash and cash equivalents can be distributed from the Group's projects, subject to approval from the lending banks, either through repayment of shareholder loans, payment of interest on shareholder loans or through dividend distributions.
- Restricted cash and cash equivalents of \$113.2 million (December 31, 2013: \$53.9 million) drawn under the loan facilities associated with the construction of Project Salvador that will be used to pay the related construction invoices.

The Group's cash and cash equivalents at June 30, 2014 included unrestricted cash of \$64.1 million (December 31, 2013: \$8.5 million), held at the corporate level. The unrestricted cash balance increased significantly during the six months ended December 31, 2013, due primarily to the following:

- Private placement – in January 2014, Etrion completed a private placement on the NASDAQ OMX raising net proceeds of \$76.3 million, issuing approximately 124,633,571 common shares at a price of SEK 4.15 (approximately CAD\$0.70) per share. The net proceeds were/will be used to: (i) fund the equity contributions associated with the Group's first projects in Chile (Project Salvador) and Japan (Shizukuishi and Mito); (ii) repay the \$18 million bridge loan obtained from investment companies associated with the Lundin family, the Company's major shareholder that was fully repaid in January 2014; and (iii) for general corporate purposes.
- Bond Refinancing - in April 2014, Etrion issued €80 million in senior secured bonds in the Norwegian bond market at 8% annual interest with a 5-year maturity. The net proceeds were/will be used to: (i) repay the previous €60 million corporate bonds in May 2014 (at 101% of par value plus accrued interest in accordance with the related bond agreement); and (ii) for general corporate purposes.

As a result of these transactions, the Group has significantly increased its liquidity with a fully-funded development pipeline (including Project Salvador in Chile and Shizukuishi and Mito in Japan). In addition, the Group expects to generate sufficient operating cash flows in 2014 and beyond from its operating solar power projects to meet its obligations and expects to finance the construction and/or acquisition of new projects with a combination of cash and cash equivalents, additional corporate equity or debt financing and non-recourse project loans, as required. After completing the private placement and the bond refinancing, the Group secured funds and liquidity for its anticipated growth and development activities.

There have been no significant changes to the Group's contractual obligations as outlined in the Company's MD&A for the year ended December 31, 2013. Refer to "Financial Review - Capital Investments" on page 18 for a summary of the Group's contractual and capital commitments at June 30, 2016.

FINANCIAL REVIEW (CONTINUED)

FINANCIAL POSITION (CONTINUED)

LIQUIDITY AND FINANCING (CONTINUED)

Borrowings

The Group's adjusted net debt position, excluding non-cash items at June 30, 2014 and December 31, 2013, is as follows:

	June 30 2014 \$'000	December 31 2013 \$'000
Total borrowings (per consolidated financial statements)	519,050	438,584
Value added tax ("VAT") facility ⁽¹⁾	(4,010)	(4,448)
Accrued interest ⁽²⁾	(3,674)	(2,968)
Transaction costs ⁽²⁾	13,853	12,343
Total borrowings (excluding non-cash items)	525,219	443,511
Cash and cash equivalents (including restricted cash)	(197,890)	(94,914)
Adjusted net debt	327,329	348,597

Notes:

- (1) The VAT facility outstanding at June 30, 2014, relates to the construction of Project Salvador. This amount has been excluded from total borrowings as this facility will be repaid using the proceeds from input VAT from the Chilean tax authorities.
- (2) In accordance with IFRS, total borrowings include accrued interest and are shown net of transaction costs. These non-cash items are excluded from total borrowings to calculate adjusted net debt (on a cash flow basis).

The Group's net debt at June 30, 2014, was adversely impacted by an increase of \$103 million to the Group's cash and cash equivalents, partially offset by an increase of \$81.7 million to the Group's total borrowings outstanding.

At June 30, 2014 and December 31, 2013, the Group was not in breach of any of the imposed operational and financial covenants associated with its non-recourse project loans and corporate borrowings.

Non-recourse project loans

The following is a summary of the Group's non-recourse project loans at June 30, 2014, and December 31, 2013:

	Capacity (MW)	Financial institution	Maturity	Balance outstanding ⁽¹⁾	
				June 30 2014 \$'000	December 31 2013 \$'000
Cassiopea	24.0	BIIS ⁽²⁾ , Societe Generale and Portigon	March 31, 2024	125,503	129,198
Helios ITA-3	10.0	Natixis, Portigon and Mediocreval	June 30, 2027	42,180	43,946
Centauro	8.8	Barclays	September 30, 2028	45,611	50,162
Helios ITA	6.4	Societe Generale and Dexia	June 30, 2024	36,729	37,171
Etrion Lazio	5.3	Natixis, Portigon and Mediocreval	June 30, 2027	20,389	21,110
SVE	3.0	Centrobanca	June 30, 2028	14,727	15,863
Sagittario	2.6	Natixis, Portigon and Mediocreval	June 30, 2027	8,683	8,979
Salvador ⁽³⁾	70.0	OPIC, Rabobank ⁽³⁾	June 1, 2033	116,659	48,205
Total	130.0			410,481	354,634

Notes:

- (1) The Group's non-recourse project loans used to finance its Italian projects are expressed in Euros, translated at the closing €//\$ exchange rate of 1.36 at June 30, 2014, and 1.38 at December 31, 2013. The balances outstanding include accrued interest and are net of transaction costs (in accordance with IFRS).
- (2) Banca Infrastrutture Innovazione e Sviluppo (Intesa Sanpaolo Group).
- (3) The balance outstanding for Project Salvador includes the VAT facility from Rabobank (to be repaid using the proceeds from input VAT from the Chilean tax authorities) which matures on February 28, 2016.

Italian projects

The non-recourse project loans (i.e., where the lending bank has security only over the assets of the associated project) held by the Group's Italian subsidiaries obtained to finance the construction of the Group's solar power projects mature at various dates between 2024 and 2028 and bear annual interest rates of Euribor plus a margin ranging from 1.35% to 3.1%. At June 30, 2014, the fair value of the non-recourse project loans approximated their carrying values as the loans bear floating interest rates. At June 30, 2014, the Group had no undrawn amounts associated with these facilities.

In order to secure the Group's non-recourse project loans, the Group pledged as collateral the fixed assets (i.e., solar power projects and land) associated with the solar power projects financed by these facilities. Repayment of these facilities is secured principally by the proceeds from the sale of electricity under contracts entered into by the Group with the GSE and proceeds from the collection of input VAT accumulated for construction costs. Counterparties to the non-recourse project loans do not have unconditional or unilateral discretionary rights to accelerate repayment to earlier dates.

FINANCIAL REVIEW (CONTINUED)

FINANCIAL POSITION (CONTINUED)

LIQUIDITY AND FINANCING (CONTINUED)

Borrowings

Non-recourse project loans (continued)

Italian projects (continued)

All the Italian non-recourse projects loans are hedged through interest rate swap contracts all of which qualified for hedge accounting at June 30, 2014 and December 31, 2013.

Chilean projects

The non-recourse project loan held by the Group's Chilean subsidiary, Salvador SpA, obtained to finance the construction of Project Salvador matures in 2033. The loan is drawn in tranches each of which is subject to a different fixed interest rate. The first tranche of \$50 million that was drawn in December 2013 bears a fixed annual rate of 7.51% and the second tranche of \$64 million drawn in May 2014, bears a fixed annual interest rate of 6.83%. At June 30, 2014, \$41 million was undrawn under this credit facility which is expected to be fully-drawn early in 2015. Total transaction costs related to the drawdown completed during the six months ended June 30, 2014 amounted to \$0.3 million. The repayment of this credit facility is secured principally by the proceeds from the sale of electricity in the spot market once the solar project is operational. The loan is accounted for using the amortized costs method based on the effective interest rate.

In addition, the Group obtained a \$35 million VAT credit facility with Rabobank, a Chilean bank owned by Rabobank Group, a Dutch multinational banking and financial service company ("Rabobank"), to finance the VAT associated with the construction costs of Project Salvador. During the three months ended June 30, 2014, the Group completed the second and third drawdown for a total amount of \$2.1 million under this VAT credit facility increasing the total amount drawn to \$4.4 million (net of accrued interest and transaction costs). At June 30, 2014, the total undrawn amount under this VAT credit facility was \$30.6 million, which is expected to be fully utilized by the end of 2014.

Corporate borrowings

On April 23, 2014, Etrion issued new secured bonds in the Norwegian bond market for €80 million. The new bonds have an annual interest rate of 8% and a bullet maturity in April 2019. A portion of the net proceeds from this transaction were used to refinance the Company's previous €60 million corporate bonds with a 9% annual interest that matured in April 2015. The carrying value of the new corporate bonds at June 30, 2014, including accrued interest and net of transaction costs, was \$108.6 million.

The corporate bond agreement includes a call option that allows the Company to redeem the bond early (in its entirety) at any time at a specified percentage over the par value (i.e., a fixed premium). Specifically, the Company can redeem the bond within the first two years at 4% above par value plus the net present value of the interest that would have accrued up to April 22, 2016 (using a discount rate of 50 basis points over the German government bond rate comparable to the remaining duration of the bonds until April 22, 2016), after the second year at 4% above par value, after the third year at 2.5% above par value and after the fourth year at 1% above par value.

Using the proceeds from the new bonds, on May 19, 2014, the Company called its previous €60 million corporate bonds at 101% of par value plus accrued interest in accordance with the associated bond agreement. As a result, the Group recognized a \$1 million loss associated with the settlement of these bonds, representing the fair value of the call option and the balance of unamortized transactions costs.

OUTSTANDING SHARE DATA

At the date of this MD&A, the Company had 334,022,657 common shares (December 31, 2013: 205,746,419) and 6,020,000 options to acquire common shares of the Company (December 31, 2013: 7,450,000) issued and outstanding. The options expire at various dates between September 10, 2014, and April 28, 2018, with exercise prices in CAD\$ ranging between CAD\$0.24 and CAD\$1.59 per share.

FINANCIAL REVIEW (CONTINUED)

FINANCIAL POSITION (CONTINUED)

In addition, at the Company's Annual and Special General Meeting held on June 12, 2014, the shareholders approved the adoption of a Restricted Share Unit (RSU) awards scheme for employees, consultants, directors and officers of the Group. The RSUs have a contractual term of three years and are subject to certain time-based conditions and performance-based vesting conditions. On July 3, 2014, the Company granted 3,220,212 RSUs to certain employees of the Company under this long term incentive plan.

OFF-BALANCE SHEET ARRANGEMENTS

The Group had no off-balance sheet arrangements at June 30, 2014 and December 31, 2013.

CAPITAL INVESTMENTS

The Group plans to make significant capital investments in 2014 and 2015 in order to develop and build its solar projects under development in Chile and Japan. The following table summarizes the Group's expected capital expenditures in 2014 and 2015 for projects currently under construction or expected to begin construction in 2014 or 2015:

	Status	Gross capacity (MW)	Ownership (%)	Total project cost ⁽¹⁾ \$'million	Total equity contribution ⁽²⁾ \$'million	Remaining equity contribution ⁽³⁾ \$'million
Projects in Chile						
Salvador ⁽⁴⁾	Construction	70.0	70.0	201.0	42.2	8.0
Aguas Blancas	Development	72.0	100.0	155.0	31.0	31.0
Las Luces	Development	27.0	100.0	58.0	11.6	11.6
Projects in Japan						
Mito	Development	9.3	87.0	34.1	5.9	5.9
Shizukuishi	Development	24.7	86.9	89.0	15.5	15.5
Total 2014-2015 planned capital expenditure		203.0		537.1	106.2	72.0

Notes:

- (1) Total project cost, represents the total estimated capital expenditure to develop and build the solar project. It is expected that the total project cost for projects under development in Chile and Japan will be financed 80% through non-recourse project debt with international financial institutions.
- (2) Total equity contribution, represents Etrion's portion of the total project cost, based on its actual/expected ownership interest.
- (3) Remaining equity contribution, represents the portion of Etrion's total equity contribution unpaid at June 30, 2014. Any development costs, including both third party and internally-generated costs charged to the projects, may be deducted from this amount, reducing Etrion's total cash outlay for the projects.
- (4) Etrion will initially own a 70% interest in Project Salvador. Following payback of the original equity contribution of approximately \$42 million, Etrion's ownership will decrease to 50.01%, expected to occur in June 2019. After 20 years of operation, Etrion's ownership will decrease to 0%.

During the six months ended June 30, 2014, Etrion successfully completed the private placement and bond refinancing (as outlined on page 15), partially funding its anticipated growth and development activities in Chile and Japan. The Group will finance the remaining development and/or construction costs associated with its projects under development, as well as new projects, with a combination of cash and cash equivalents, additional corporate debt or equity financing and non-recourse project loans, as required.

CONTRACTUAL AND CAPITAL COMMITMENTS

The Group enters into contracts with large international contractors that design, construct, operate and maintain utility-scale solar photovoltaic power plants.

Chile

In September 2013, the Group entered into a shareholders agreement with Total and Solventus to build, own and operate Project Salvador. The total project cost of approximately \$201 million, is being financed 70% through non-recourse project debt, with the remaining equity being funded by Etrion, Total and Solventus, based on their respective ownership interests of 70%, 20% and 10%, resulting in a total capital commitment for the Group of approximately \$42.2 million. At June 30, 2014, the Group has \$8 million outstanding under this commitment.

At the date of this MD&A, the Group had no other significant capital commitments in Chile.

Japan

The total project cost for the two Japanese projects (Shizukuishi and Mito) is approximately \$123.1 million, including costs related to the licences, permits, development and construction, which is expected to be financed approximately 80% through non-recourse debt from a Japanese bank, with the remaining equity portion to be funded by Etrion and Hitachi High-Tech based on their respective ownership interests (as outlined in the table above), resulting in an expected total capital commitment for the Group of approximately \$21.4 million.

At the date of this MD&A, the Group had no other significant capital commitments in Japan.

FINANCIAL REVIEW (CONTINUED)

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

There has been no change to the critical accounting estimates and assumptions used in the preparation of the Company's condensed consolidated interim financial statements for the three and six months ended June 30, 2014 from those disclosed in the notes to the Company's consolidated financial statements for the year ended December 31, 2013.

During the first half of 2014, the Group did not adopt any new standards and interpretations or amendments thereto, applicable for financial periods beginning on or after January 1, 2014, that would have a significant impact on the Company's consolidated financial information.

RELATED PARTIES

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

The related party transactions disclosed in the notes to the Company's consolidated financial statements for the three and six months ended June 30, 2014 are summarized below and on page 20.

RELATED PARTY TRANSACTIONS

Lundin Services BV

The Group receives technical and legal services from Lundin Services BV, a wholly-owned subsidiary of Lundin Petroleum AB. The Chief Executive Officer of Lundin Petroleum AB is a director of the Company. During the three and six months ended June 30, 2014, the Group incurred general and administrative expenses of \$0.1 million (2013: \$7,000) and \$0.1 million (2013: \$17,000), respectively, from Lundin Services BV and at June 30, 2014 the Group had \$0.1 million (December 31 2013: \$5,000) outstanding in relation to these expenses.

During the first quarter of 2014, Lundin Services BV sold their remaining €7.6 million principal amount of corporate bonds issued by the Company in April 2011. Lundin Services BV did not participate or subscribe in the new bond financing which closed in April 2014.

During the three and six months ended June 30, 2014, the Group recognized \$nil (2013: \$0.2 million) and \$0.2 million (2013: \$0.4 million), respectively, of interest expense and \$nil (2013: \$6,000) and \$7,000 (2013: \$12,000), respectively, of transaction costs associated with the portion of the corporate bonds held by Lundin Services BV during these periods.

Lundin family

Corporate bond

During the first quarter of 2014, investment companies associated the Lundin family sold their €15 million principal amount of corporate bonds issued by the Company in April 2011. These investment companies associated with the Lundin family subscribed for €15 million of the new bonds issued in April 2014. During the three and six months ended June 30, 2014, the Group recognized \$0.3 million (2013: \$0.4 million) and \$0.7 million (2013: \$0.9 million), respectively, of interest expense and \$14,000 (2013: \$11,000) and \$27,000 (2013: \$23,000), respectively, of transaction costs associated with the portion of the corporate bonds held by investment companies associated with the Lundin family during these periods.

FINANCIAL REVIEW (CONTINUED)

RELATED PARTIES (CONTINUED)

RELATED PARTY TRANSACTIONS (CONTINUED)

Lundin family (continued)

Lundin family bridge Loan

In September 2013, the Group obtained a \$42 million unsecured loan facility from a company affiliated with the Lundin family at an annual interest rate of 12% with a 12-month maturity in order to fund its business development activities in Chile. During 2013, \$18 million was drawn under the loan facility and in January 2014 the total amount outstanding of \$18.4 million, including interest, was repaid.

KEY MANAGEMENT PERSONNEL

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. The key management of the Group includes members of the Board of Directors, the Chief Executive Officer, Mr. Northland, the Chief Financial Officer, Cheryl Eversden and the interim Chief Financial Officer, Garrett Soden, who covered during Mrs. Eversden's maternity leave.

During the three and six months ended June 30, 2014, the Group recognized \$0.5 million (2013: \$0.4 million) and \$1.1 million (2013: \$0.7 million), respectively, within general and administrative expenses associated with the remuneration of key management personnel, related to salaries and short-term benefits, pension costs, fees paid to the Board of Directors and share-based payment expenses. At June 30, 2014, the Group had \$0.1 million in fees payable to the Board of Directors. At December 31, 2013, the Group had \$0.8 million outstanding to key management personnel for 2013 bonus compensation.

FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial risks relating to its operations. These risks include market risk (including currency risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management procedures focus on the unpredictability of financial markets, specifically changes in foreign exchange rates and interest rates, and seek to minimize potential adverse effects on the Group's financial performance. The Group seeks to minimize the effects of these risks by using derivative financial instruments to hedge interest risk exposures (i.e., interest rate swap contracts). However, the Group has not entered into any foreign exchange rate hedges as the effects of foreign exchange rate movements are currently deemed to have an insignificant impact on the Group's annual and quarterly results, due to the fact that monetary assets and liabilities held by the Group's subsidiaries are primarily held in the individual subsidiaries' functional currency.

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

Refer to the Company's audited consolidated financial statements for the year ended December 31, 2013, for further details relating to the Group's financial risk management.

DERIVATIVE FINANCIAL INSTRUMENTS

A summary of the Group's derivative financial instruments at June 30, 2014 and December 31, 2013 is as follows:

	June 30 2014 \$'000	December 31 2013 \$'000
Derivative financial liabilities:		
Interest rate swap contracts (cash flow hedges) ⁽¹⁾		
- Current portion	9,427	9,110
- Non-current portion	39,100	27,019
Total derivative financial liabilities	48,527	36,129

Note:

- (1) All of the Group's Italian non-recourse project loans are hedged through interest rate swap contracts. At June 30, 2014 and December 31, 2014, all of the Group's derivative financial instruments were classified as cash flow hedges that qualified for hedge accounting.

The Group has entered into five credit facilities, associated with its Italian operations, that are hedged using interest rate swap contracts in order to hedge against the risk of variations in the Group's cash flows as a result of floating interest rates on these non-recourse project loans. The fair value of these interest rate swap contracts is calculated as the present value of the estimated future cash flows, calculated using the notional amount to maturity as per the interest rate swap contracts, the observable Euribor interest rate forward yield curve and an appropriate discount factor.

FINANCIAL REVIEW (CONTINUED)

DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

During the three and six months ended June 30, 2014, the Group recognized a net fair value loss of \$4.3 million (2013: net fair value gain of \$6.6 million) and of \$8 million (2013: net fair value gain of \$8.9 million), respectively, net of tax, within other comprehensive income related to the effective portion of the Group's interest rate swap contracts.

In addition, at March 31 2014, the Group recognized a derivative financial asset associated with the call option relating to the previous €60 million corporate bonds. During the three months ended June 30, 2014, the Group recognized a loss of \$1 million associated with the early redemption of these corporate bonds.

RISKS AND UNCERTAINTIES

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

FINANCIAL RISKS

DEBT AND EQUITY FINANCING

The Group's anticipated growth and development activities will depend on the Group's ability to secure additional financing (i.e., corporate debt, equity financing or non-recourse project loans). The Group cannot be certain that financing will be available when needed, and, as a result, the Group may need to delay discretionary expenditure. In addition, the Group's level of indebtedness from time to time could impair its ability to obtain additional financing and to take advantage of business opportunities as they arise. Failure to comply with facility covenants and obligations could also expose the Group to the risk of seizure or forced sale of some or all of its assets.

CAPITAL REQUIREMENTS AND LIQUIDITY

Although the Group is currently generating significant cash flows from its operational projects, the construction and acquisition of additional projects will require significant external funding. Failure to obtain financing on a timely basis could cause the Group to miss certain business opportunities, reduce or terminate its operations or forfeit its direct or indirect interest in certain projects. There is no assurance that debt or equity financing, or cash generated from operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be available on terms acceptable to the Group. The inability of the Group to access sufficient capital for its operations could have a material impact on the Group's business model, financial position and performance.

MARKET RISKS

The Group is exposed to financial risks such as interest rate risk, foreign currency risk, price risk and credit risk. The Company's management seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures.

COST UNCERTAINTY

The Group's current and future operations are exposed to cost fluctuations and other unanticipated expenditures that could have a material impact on the Group's financial performance.

NON-FINANCIAL RISKS

LICENSES AND PERMITS

The Group's operations require licenses and permits from various governmental authorities that are subject to changes in regulation and operating circumstances. There is no assurance that the Group will be able to obtain all the necessary licenses and permits required to develop future renewable energy projects. At the date of this MD&A, to the best of the Company's knowledge, all necessary licenses and permits have been obtained for projects already built and under construction, and the Group is complying in all material respects with the terms of such licenses and permits.

RISKS AND UNCERTAINTIES (CONTINUED)

NON-FINANCIAL RISKS (CONTINUED)

GOVERNMENTAL REGULATION

The renewable energy sector is subject to extensive government regulation. These regulations are subject to change based on the current and future economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the industries in which the Group operates could lead to delays in the construction or development of additional solar power projects and/or adversely impair its ability to acquire and develop economic projects, generate adequate internal returns from operating projects and continue operating in current markets. Specifically, reductions in the FiT (including, without limitations, the Italian decree published on June 24, 2014, and when it becomes law in its current form or otherwise) payable to the Group on its existing solar power projects in Italy as well as other legislative or regulatory changes could impact the profitability of the Group's future solar power projects.

COMPETITION

The renewable energy industry is extremely competitive and many of the Group's competitors have greater financial and operational resources. There is no assurance that the Group will be able to acquire new renewable energy projects in order to grow in accordance with the Company's strategy. The Group also competes in securing the equipment necessary for the construction of solar energy projects. Equipment and other materials necessary to construct production and transmission facilities may be in short supply, causing project delays or cost fluctuations.

PRICES AND MARKETS FOR ELECTRICITY

The Group is not currently exposed to significant commodity price risk as the majority of its current revenues generated by its operating solar power projects are secured by long-term contracts based on a FiT. However, in Chile, the Company is exposed to price risks associated with the electricity sold at the spot rate, which may be subject to change based on competition, economic, political and other conditions.

A decline in the costs of other sources of electricity, such as fossil fuels or nuclear power, could reduce the wholesale price of electricity. A significant amount of new electricity generation capacity becoming available could also reduce the wholesale price of electricity. Broader regulatory changes to the electricity trading market (such as changes to integration of transmission allocation and changes to energy trading and transmission charging) could have an impact on electricity prices. A decline in the market price of electricity could materially adversely affect the price of electricity generated by renewable assets in Chile and thus the Company's business, financial position, results of operations and business prospects.

INTERNATIONAL OPERATIONS

Renewable energy development and production activities are subject to significant political and economic uncertainties that may adversely affect the Group's performance. Uncertainties include, but are not limited to, the possibility of expropriation, nationalization, renegotiation or nullification of existing or future PPAs, a change in renewable energy pricing policies and a change in taxation policies or the regulatory environment in the jurisdictions in which the Group operates. These uncertainties, all of which are beyond the Group's control, could have a material adverse effect on the Group's financial position and operating performance. In addition, if legal disputes arise relating to any of the Group's operations, the Group could be subject to legal claims and litigation within the jurisdiction in which it operates.

RELIANCE ON CONTRACTORS AND KEY EMPLOYEES

The ability of the Company to conduct its operations is highly dependent on the availability of skilled workers. The labor force in Europe, as well as other parts of the world, is unionized and politicized, and the Group's operations may be subject to strikes and other disruptions. In addition, the success of the Company is largely dependent upon the performance of its management and key employees. There is a risk that the departure of any member of management or any key employee could have a material adverse effect on the Group.

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

DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Forward-looking information and statements are included throughout this MD&A and include, but are not limited to, statements with respect to: the Group's plans for future growth and development activities (including, but not limited to, expectations relating to the timing of the development, construction, permitting, licensing, financing and operation of the its projects in Japan and Chile, including Project Salvador, Shizukuishi and Mito and the anticipated projected electricity production from such projects); future expansion efforts in Chile and Japan; expectations relating to cash flow in 2014 and 2015 and the expected sufficiency and uses thereof; expectations relating to future solar energy production and the means by which, and to whom, such future solar energy will be sold; the need for, and amount of, additional capital to fund the construction or acquisition of new projects and the expected sources of such capital; the uses of proceeds from the new bond financing; expectations relating to grid parity; the expected key drivers for growth; expectations with respect to future mining growth in Chile; the anticipated use of the proceeds from the private placement of common shares that was completed in January 2014; and plans for future dividend distributions. The above constitute forward-looking information, within the meaning of applicable Canadian securities legislation, which involves risks, uncertainties and factors that could cause actual results or events to differ materially from current expectations, including, without limitation: risks associated with operating exclusively in foreign jurisdictions; uncertainties with respect to the identification and availability of suitable additional renewable energy projects on economic terms; uncertainties with respect to the Group's ability to negotiate PPAs with industrial energy users; uncertainties relating to the availability and costs of financing needed in the future; the lack of confirmation or reduction of the applicable FiT and the Market Price for electricity sales in Italy; uncertainties with respect to the impact of the proposed decree published in June 2014 by the Italian government; uncertainties with respect to the receipt or timing of all applicable permits for the development of projects; uncertainties with respect to certain information relating to solar electricity revenue that is subject to confirmation of both the applicable FiT to which the Company is entitled by the state-owned company, GSE, and the applicable spot market price by local utilities for electricity sales to the national grid; the impact of general economic conditions and world-wide industry conditions in the jurisdictions and industries in which the Group operates; risks inherent in the ability of the Group to generate sufficient cash flow from operations to meet current and future obligations; stock market volatility; opportunities available to or pursued by the Group; and other factors, many of which are beyond the Group's control.

All such forward-looking information is based on certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors the Company believes are appropriate in the circumstances. Such assumptions include, but are not limited to: confirmation of the applicable FiT and spot market price for electricity sales in Italy; the ability of the Group to obtain the required permits in a timely fashion and project and debt financing on economic terms and/or in accordance with its expectations; the ability of the Group to identify and acquire additional solar power projects; expectations with respect to the declining impact of seasonality on the Group's business and assumptions relating to management's assessment of the new decree published in June 2014 by the Italian government. The foregoing factors, assumptions and risks are not exhaustive and are further discussed in Etrion's most recent Annual Information Form and other public disclosure available on SEDAR at www.sedar.com. Actual results, performance or achievements could differ materially from those expressed in, or implied by, such forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits will be derived therefrom. Investors should not place undue reliance on forward-looking information. Except as required by law, Etrion does not intend to update or revise any forward-looking information, whether as a result of new information, future events or otherwise. The information contained in this MD&A is expressly qualified by this cautionary statement.

ADDITIONAL INFORMATION

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