

The logo for etrion, featuring the word "etrion" in a white, lowercase, sans-serif font centered within a solid red rounded rectangular background.

etrion

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

THREE AND SIX MONTHS ENDED JUNE 30, 2013

UNAUDITED

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	Unaudited	

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013

UNAUDITED

Expressed in US\$'000

	Note	Three months ended		Six months ended	
		June 30 2013 \$'000	June 30 2012 \$'000	June 30 2013 \$'000	June 30 2012 \$'000
Revenue	5	18,414	19,198	26,736	29,936
Operating expenses	6	(7,168)	(6,364)	(13,979)	(12,356)
Gross profit		11,246	12,834	12,757	17,580
General and administrative expenses	7	(1,715)	(2,336)	(3,172)	(4,414)
Other (expenses)/income	8	(234)	588	(627)	1,991
Operating profit		9,297	11,086	8,958	15,157
Finance income	9	531	122	565	582
Finance costs	9	(6,893)	(7,492)	(14,077)	(14,772)
Net finance costs		(6,362)	(7,370)	(13,512)	(14,190)
Income/(loss) before income tax		2,935	3,716	(4,554)	967
Income tax expense	10	(3,173)	(2,960)	(1,140)	(2,512)
(Loss)/income for the period		(238)	756	(5,694)	(1,545)
Other comprehensive income/(loss):					
(Loss)/gain on currency translation		(549)	404	175	(142)
Gain/(loss) on cash flow hedges (net of tax)		6,622	(4,811)	8,937	(6,379)
Total other comprehensive income/(loss)		6,073	(4,407)	9,112	(6,521)
Total comprehensive income/(loss) for the period		5,835	(3,651)	3,418	(8,066)
(Loss)/income attributable to:					
Owners of the Company		(238)	756	(5,694)	(1,545)
Total comprehensive income/(loss) attributable to:					
Owners of the Company		5,835	(3,651)	3,418	(8,066)
Basic and Diluted (loss)/earnings per share	11	\$(0.001)	\$0.004	\$(0.028)	\$(0.008)

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

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS AT JUNE 30, 2013

UNAUDITED

Expressed in US\$'000

	Note	June 30 2013 \$'000	December 31 2012 \$'000
Assets			
Non-current assets			
Property, plant and equipment	12	339,343	352,208
Intangible assets	13	15,127	14,619
Available for sale investments		2,061	2,061
Deferred income tax assets		7,947	9,142
Trade and other receivables		3,470	7,136
Total non-current assets		367,948	385,166
Current assets			
Trade and other receivables		43,252	29,861
Cash and cash equivalents (including restricted cash)	14	25,300	37,750
Total current assets		68,552	67,611
Total assets		436,500	452,777
Equity			
Attributable to owners of the Company			
Share capital		33,270	33,270
Contributed surplus		10,783	10,430
Other reserves		(13,612)	(22,840)
Accumulated deficit		(41,200)	(35,506)
Total equity		(10,759)	(14,646)
Liabilities			
Non-current liabilities			
Borrowings	16	357,512	369,747
Derivative financial instruments	17	28,825	40,558
Deferred income tax liabilities		2,268	1,610
Provisions		5,522	5,600
Total non-current liabilities		394,127	417,515
Current liabilities			
Trade and other payables		4,688	6,990
Current income tax liabilities	10	1,952	604
Borrowings	16	34,153	30,024
Derivative financial instruments	17	9,253	9,662
Provisions		3,086	2,628
Total current liabilities		53,132	49,908
Total liabilities		447,259	467,423
Total equity and liabilities		436,500	452,777

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2013

UNAUDITED

Expressed in US\$'000

	Attributable to owners of the Company				
	Share capital \$'000	Contributed surplus \$'000	Other reserves \$'000	Accumulated deficit \$'000	Total equity \$'000
Balance at January 1, 2012	23,293	15,998	(9,429)	(27,300)	2,562
Comprehensive loss:					
- Loss for the period	-	-	-	(1,545)	(1,545)
- Other comprehensive loss:					
Cash flow hedges (net of tax)	-	-	(6,379)	-	(6,379)
Currency translation	-	-	(142)	-	(142)
Total comprehensive loss	-	-	(6,521)	(1,545)	(8,066)
Transactions with owners in their capacity as owners:					
- Share issuance	9,977	(6,065)	-	-	3,912
- Share-based payments	-	161	-	-	161
Balance at June 30, 2012	33,270	10,094	(15,950)	(28,845)	(1,431)
Balance at January 1, 2013	33,270	10,430	(22,840)	(35,506)	(14,646)
Comprehensive loss:					
- Loss for the period	-	-	-	(5,694)	(5,694)
- Other comprehensive income:					
Cash flow hedges (net of tax)	-	-	9,053	-	9,053
Currency translation	-	-	175	-	175
Total comprehensive income/(loss)	-	-	9,228	(5,694)	3,534
Transactions with owners in their capacity as owners:					
- Share-based payments	-	353	-	-	353
Balance at June 30, 2013	33,270	10,783	(13,612)	(41,200)	(10,759)

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOW

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013

UNAUDITED

Expressed in US\$'000

	Note	Three months ended		Six months ended	
		June 30 2013 \$'000	June 30 2012 \$'000	June 30 2013 \$'000	June 30 2012 \$'000
Cash flow from operating activities:					
(Loss)/income for the period		(238)	756	(5,694)	(1,545)
Adjustments for:					
Depreciation and amortization	6/7	5,015	4,913	10,095	9,989
Current income tax expense	10	4,806	4,493	1,793	3,866
Deferred income tax recovery	10	(1,633)	(1,533)	(653)	(1,354)
Share-based payment expense	7	152	80	320	159
Interest expense	9	4,077	4,912	8,224	10,226
Interest expense relating to interest rate swap contracts	9	2,398	1,690	4,808	3,167
Amortization of transaction costs	9	217	200	435	413
Foreign exchange (gain)/loss	9	(28)	409	208	211
Fair value changes of derivative financial instruments	9	(358)	148	(290)	56
Loss (gain) on asset disposal		16	-	(1)	-
Other expenses/(income)	8/18	234	15	627	(1,388)
Interest income		(102)	(77)	(102)	(77)
Increase in trade and other receivables		(7,091)	(9,178)	(9,723)	(9,586)
(Decrease)/increase in trade and other payables		(342)	652	(1,922)	(1,574)
Income tax paid		(986)	(778)	(1,029)	(778)
Total cash flow from operating activities		6,137	6,702	7,096	11,785
Cash flow from investing activities:					
Purchases of property, plant and equipment		(30)	(407)	(71)	(518)
Disposal of property, plant and equipment		20	-	60	-
Purchases of intangible assets		(728)	-	(1,340)	-
Total cash flow used in investing activities		(738)	(407)	(1,351)	(518)
Cash flow from financing activities:					
Interest paid	16	(2,205)	(6,237)	(8,278)	(10,660)
Interest paid relating to interest rate swap contracts		(1,847)	(1,059)	(4,668)	(2,882)
Interest income		102	77	102	77
Repayment of borrowings	16	(2,277)	(4,009)	(5,048)	(7,545)
Proceeds from borrowings	16	-	-	-	2,242
Total cash flow used in financing activities		(6,227)	(11,228)	(17,892)	(18,768)
Net decrease in cash and cash equivalents		(828)	(4,933)	(12,147)	(7,501)
Effect of exchange rate differences		427	(1,993)	(303)	(903)
Cash and cash equivalents (including restricted cash) at the beginning of the period		25,701	38,178	37,750	39,656
Cash and cash equivalents (including restricted cash) at the end of the period		25,300	31,252	25,300	31,252

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013

UNAUDITED

Expressed in US\$'000 unless otherwise stated

1. GENERAL INFORMATION

Etrion Corporation (the "Company" or together with its subsidiaries, the "Group") is incorporated under the laws of the Province of British Columbia, Canada. The address of its registered office is 1600-925 West Georgia St, Vancouver, British Columbia V6C 3L2, Canada. The Company is listed on the Toronto Stock Exchange in Canada and the NASDAQ OMX Stockholm exchange in Sweden.

Etrion Corporation is an independent power producer that owns and operates renewable assets.

These condensed consolidated interim financial statements are presented in US dollars ("\$"). However, since the functional currency of the Company (i.e., the primary economic environment in which the Company operates) is the Euro and the Company's primary listing is in Canada, certain financial information within the notes to these condensed consolidated interim financial statements has been presented in Euros ("€") and Canadian dollars ("CAD\$").

The Company's Board of Directors approved these condensed consolidated interim financial statements authorized for issue on August 2, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, using accounting policies consistent with International Financial Reporting Standards ("IFRS") and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2012.

These condensed consolidated interim financial statements have been drawn up on the basis of accounting policies, methods of computation and presentation consistent with those applied in the audited consolidated financial statements for the year ended December 31, 2012.

(b) GOING CONCERN

The Company's condensed consolidated interim financial statements for the three and six months ended June 30, 2013, have been prepared on a going concern basis, which assumes that the Group will be able to realize its assets and discharge its liabilities in the normal course of business as they become due in the foreseeable future.

At June 30, 2013, the Group had cash and cash equivalents of \$25.3 million (December 31, 2012: \$37.8 million) and positive working capital (i.e., current assets less current liabilities) of \$15.4 million (December 31, 2012: \$17.7 million). During the six months ended June 30, 2013, the Group incurred a net loss of \$5.7 million (2012: \$1.5 million). However, the Company's management is confident that the Group will be able to fund its working capital requirements for at least twelve months from the date of these condensed consolidated interim financial statements.

The Group's anticipated growth and development activities will depend on the Group's ability to secure additional financing (i.e., corporate debt and equity financing, non-recourse project loans or vendor financing). The Group cannot be certain that financing will be available when needed, and, as a result, the Group may be required to delay discretionary expenditures.

These condensed consolidated interim financial statements for the three and six months ended June 30, 2013, do not include the adjustments that would result if the Group was unable to continue as a going concern.

(c) CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

During the six months ended June 30, 2013, the Group adopted the following new standards and interpretations or amendments thereto applicable for financial periods beginning on January 1, 2013:

- **IAS 19 (revised), Employee Benefits ("IAS 19"):** The revised standard clarifies what is included in annual costs for defined benefit plans, requires actuarial gains and losses to be recognized immediately in comprehensive income and requires additional disclosures regarding the characteristics of the entity's benefit plans, amounts recognized in the financial statements, impacts on future cash flows and risks arising from the defined benefit plan. The Group assessed the full impact of IAS 19 and concluded that the adoption does not have a significant impact on the condensed consolidated interim financial statements for the three and six months ended June 30, 2013.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013

UNAUDITED

Expressed in US\$'000 unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

- **IFRS 10, Consolidated Financial Statements ("IFRS 10"):** This standard builds on the existing principals by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The Group assessed the full impact of IFRS 10 and concluded that the adoption does not have a significant impact on the condensed consolidated interim financial statements for the three and six months ended June 30, 2013.
- **IFRS 13, Fair value measurements ("IFRS 13"):** This standard aims to improve consistency and reduce complexity by providing precise definitions of fair value, a single source of fair value measurement and disclosure requirements for use across all IFRS. The Group assessed the full impact of IFRS 13 and concluded that the adoption does not have a significant impact on the condensed consolidated interim financial statements for the three and six months ended June 30, 2013.

3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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 amounts 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 condensed consolidated interim financial statements are prepared. On a regular basis, the Company's management reviews the accounting policies, assumptions, estimates and judgments to ensure that the financial statements are presented fairly in accordance with IFRS. However, because future events and their effects cannot be determined with certainty, actual results may differ from the 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, 2013, from those disclosed in the notes to the Company's audited consolidated financial statements for the year ended December 31, 2012.

4. SEGMENT REPORTING

The Company's management has determined the operating segments based on reports reviewed by the Board of Directors used to make strategic decisions. The Board of Directors considers reportable segments from a products and services perspective and measures performance based on earnings before interest, tax, depreciation and amortization ("EBITDA"). The Company's management has identified one reportable segment, the renewable energy segment, which includes the Group's solar power projects. Whilst the Company's management has determined that the Company has only one reportable segment, the Company has decided to disclose the additional information below as it believes that such information would be useful to the users of the financial statements.

The Group's electricity is sold to the Italian state-owned company Gestore Servizi Energetici ("GSE"). All of the Group's operating solar power projects are located in Italy.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013

UNAUDITED

Expressed in US\$'000 unless otherwise stated

4. SEGMENT REPORTING (CONTINUED)

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

Three months ended June 30:	2013			2012		
	Renewable energy \$'000	Corporate and other \$'000	Total \$'000	Renewable energy \$'000	Corporate and other \$'000	Total \$'000
Revenue	18,414	-	18,414	19,198	-	19,198
Operating expenses ⁽¹⁾⁽²⁾	(2,241)	-	(2,241)	(1,518)	-	(1,518)
General and administrative expenses ⁽¹⁾⁽²⁾	(387)	(1,240)	(1,627)	(338)	(1,931)	(2,269)
Other (expenses)/income	(318)	84	(234)	441	147	588
EBITDA	15,468	(1,156)	14,312	17,783	(1,784)	15,999
Depreciation and amortization	(4,925)	(90)	(5,015)	(4,846)	(67)	(4,913)
Finance income	501	30	531	81	41	122
Finance costs	(5,065)	(1,828)	(6,893)	(5,470)	(2,022)	(7,492)
Income/(loss) before income tax	5,979	(3,044)	2,935	7,548	(3,832)	3,716
Income tax expense	(3,018)	(155)	(3,173)	(2,942)	(18)	(2,960)
Net income/(loss) for the period	2,961	(3,199)	(238)	4,606	(3,850)	756

Notes:

- (1) General and administrative expenses of \$0.7 million, incurred during the three months ended June 30, 2012, relating to internally generated costs and property taxes directly attributable to the Group's renewable energy segment, were reclassified from general and administrative expenses previously allocated to the corporate segment to operating expenses associated with the Group's renewable energy segment, adjusting the amounts previously reported to be consistent with the classification of expenditure applied in 2013. Operating expenses and general and administrative expenses shown in the table above, exclude depreciation and amortization expenses (Note 6/7).
- (2) Operating expenses and general and administrative expenses shown in the table above, exclude depreciation and amortization expenses (Note 6/7).

Six months ended June 30:	2013			2012		
	Renewable energy \$'000	Corporate and other \$'000	Total \$'000	Renewable energy \$'000	Corporate and other \$'000	Total \$'000
Revenue	26,736	-	26,736	29,936	-	29,936
Operating expenses ⁽¹⁾⁽²⁾	(4,066)	-	(4,066)	(2,504)	-	(2,504)
General and administrative expenses ⁽¹⁾⁽²⁾	(717)	(2,273)	(2,990)	(545)	(3,732)	(4,277)
Other (expenses)/income	(318)	(309)	(627)	441	1,550	1,991
EBITDA	21,635	(2,582)	19,053	27,328	(2,182)	25,146
Depreciation and amortization	(9,912)	(183)	(10,095)	(9,852)	(137)	(9,989)
Finance income	563	2	565	578	4	582
Finance costs	(10,215)	(3,862)	(14,077)	(11,098)	(3,674)	(14,772)
Income/(loss) before income tax	2,071	(6,625)	(4,554)	6,956	(5,989)	967
Income tax expense	(963)	(177)	(1,140)	(2,482)	(30)	(2,512)
Net income/(loss) for the period	1,108	(6,802)	(5,694)	4,474	(6,019)	(1,545)

Notes:

- (1) General and administrative expenses of \$1.1 million, incurred during the six months ended June 30, 2013, relating to internally generated costs and property taxes directly attributable to the Group's renewable energy segment, were reclassified from general and administrative expenses previously allocated to the corporate segment to operating expenses associated with the Group's renewable energy segment, adjusting the amounts previously reported to be consistent with the classification of expenditure applied in 2013.
- (2) Operating expenses and general and administrative expenses shown in the table above, exclude depreciation and amortization expenses (Note 6/7).

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

	June 30, 2013			December 31, 2012		
	Renewable energy \$'000	Corporate and other \$'000	Total \$'000	Renewable energy \$'000	Corporate and other \$'000	Total \$'000
Property, plant and equipment	338,825	518	339,343	351,577	631	352,208
Intangible assets	9,714	5,413	15,127	10,431	4,188	14,619
Available for sale investments	-	2,061	2,061	-	2,061	2,061
Cash and cash equivalents	18,895	6,405	25,300	30,824	6,926	37,750
Other assets	51,887	2,782	54,669	45,946	193	46,139
Total assets	419,321	17,179	436,500	438,778	13,999	452,777
Borrowings	312,150	79,515	391,665	319,704	80,067	399,771
Trade and other payables	2,302	2,393	4,688	2,188	4,802	6,990
Other liabilities	48,394	2,505	50,906	58,092	2,570	60,662
Total liabilities	362,846	84,413	447,259	379,984	87,439	467,423

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013

UNAUDITED

Expressed in US\$'000 unless otherwise stated

5. REVENUE

	Three months ended		Six months ended	
	June 30 2013 \$'000	June 30 2012 \$'000	June 30 2013 \$'000	June 30 2012 \$'000
Feed-in tariff ("FiT") revenue	16,037	15,872	22,966	24,527
Market Price revenue	2,377	3,326	3,770	5,409
Total revenue	18,414	19,198	26,736	29,936

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

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

6. OPERATING EXPENSES

	Three months ended		Six months ended	
	June 30 2013 \$'000	June 30 2012 \$'000	June 30 2013 \$'000	June 30 2012 \$'000
Operation and maintenance ("O&M") costs	868	386	1,623	558
Operating personnel costs	311	241	517	488
Depreciation and amortization (operating solar power projects)	4,925	4,846	9,912	9,852
Taxes (other than income)	438	415	868	563
Insurance	110	118	221	223
Land lease	53	48	106	99
Other operating expenses	463	310	732	573
Total operating expenses	7,168	6,364	13,979	12,356

Note:

- (1) Operating expenses incurred during the three and six months ended June 30, 2012, as previously reported of \$5.7 million and of \$11.3 million, respectively, were increased by \$0.7 million and \$1.1 million, due to a reclassification of certain general and administrative expenses, including internally generated costs and property taxes, directly related to the operation of the Group's solar power projects to be consistent with the classification of expenditure applied in 2013.

O&M costs of \$0.9 (2012: \$0.4 million) and \$1.6 million (2012: \$0.6 million) for the three and six months ended June 30, 2013, respectively, relate to fees paid mainly in connection with the operation and maintenance activities of the Group's solar power projects in Italy. The Group outsources these O&M services to third parties.

7. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended		Six months ended	
	June 30 2013 \$'000	June 30 2012 \$'000	June 30 2013 \$'000	June 30 2012 \$'000
Salaries and benefits	523	815	928	1,798
Board of Directors fees	24	60	46	120
Share-based payment expense	152	80	320	159
Corporate and professional fees	546	582	1,058	1,058
Listing, filing and marketing expenses	111	25	195	142
Office lease expenses	118	112	239	227
Depreciation and amortization (corporate assets)	90	67	183	137
Office, travel and other general and administrative expenses	151	595	203	773
Total general and administrative expenses	1,715	2,336	3,172	4,414

Note:

- (1) General and administrative expenses incurred during the three and six months ended June 30, 2012, as previously reported of \$3.0 million and \$5.5 million, respectively, were reduced by \$0.7 million and \$1.1 million due to a reclassification of certain costs, including internally generated costs and property taxes, directly related to the operation of the Group's solar power projects to be consistent with the classification of expenditure applied in 2013.

During the three months ended June 30, 2013, general and administrative expenses of \$0.7 million (2012: \$nil) representing internally-generated costs (\$0.5 million) and third-party costs (\$0.2 million) were capitalized during the period within intangible assets, as they directly related to the Group's business development activities (Note 13).

During the six months ended June 30, 2013, general and administrative expenses of \$1.4 million (2012: \$nil) representing internally-generated costs (\$0.9 million) and third-party costs (\$0.5 million) were capitalized during the period within intangible assets, as they directly related to the Group's business development activities (Note 13).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013

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8. OTHER EXPENSES/(INCOME)

	Three months ended		Six months ended	
	June 30 2013 \$'000	June 30 2012 \$'000	June 30 2013 \$'000	June 30 2012 \$'000
Impairment related to business development activities	-	-	393	-
Exchange right (non-cash compensation) Note 18	-	-	-	(1,403)
Other expenses/(income)	234	(588)	234	(588)
Total other expenses/(income)	234	(588)	627	(1,991)

During the six months ended June 30, 2013, the Group impaired certain costs associated with its business development activities in Chile.

9. FINANCE INCOME AND COSTS

	Three months ended		Six months ended	
	June 30 2013 \$'000	June 30 2012 \$'000	June 30 2013 \$'000	June 30 2012 \$'000
Finance income:				
Changes in fair values of derivative financial instruments:				
- Interest rate swap contracts	-	-	-	416
- Ineffective portion reclassified from other comprehensive income	445	81	463	89
Foreign exchange gain	28	-	-	-
Other finance income	58	41	102	77
Total finance income	531	122	565	582
Finance costs:				
Interest rate expense:				
- Credit facilities and non-recourse loans Note 15	2,301	3,181	4,686	6,725
- Interest rate swap contracts associated with non-recourse loans	2,398	1,690	4,808	3,167
- Corporate bond Note 15/17	1,776	1,731	3,538	3,501
- Amortization of transaction costs	217	200	435	413
Changes in fair values of derivative financial instruments:				
- Ineffective portion reclassified from other comprehensive income	1	-	1	73
- De-designated portion reclassified from other comprehensive income	86	124	172	383
- Interest rate swap contracts	-	105	-	105
Foreign exchange loss	-	409	208	211
Other finance costs	114	52	229	194
Total finance costs	6,893	7,492	14,077	14,772
Net finance costs	6,362	7,370	13,512	14,190

The Group has five credit facilities outstanding, that are hedged using interest rate swap contracts, which were used to finance the construction of its operating solar power projects in Italy. Refer to [Note 16](#) and [Note 17](#) for further details on the Group's credit facilities and derivative financial instruments.

During the three and six months ended June 30, 2013, the Group recognized a net fair value gain of \$6.6 million (2012: net fair value loss of \$4.8 million) and of \$8.9 million (2012: net fair value loss of \$6.4 million), respectively, net of tax, within other comprehensive income related to the effective portion of the Group's interest rate swap contracts.

10. INCOME TAXES

(a) INCOME TAX EXPENSE

	Three months ended		Six months ended	
	June 30 2013 \$'000	June 30 2012 \$'000	June 30 2013 \$'000	June 30 2012 \$'000
Current income tax expense:				
Corporate income tax	(3,662)	(3,532)	(1,303)	(3,039)
Provincial income tax	(1,144)	(961)	(490)	(827)
Total current income tax expense	(4,806)	(4,493)	(1,793)	(3,866)
Deferred income tax recovery:				
Current period	(861)	211	(703)	221
Tax benefits	2,494	1,322	1,356	1,133
Total deferred income tax recovery	1,633	1,533	653	1,354
Total income tax expense	(3,173)	(2,960)	(1,140)	(2,512)

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10. INCOME TAXES (CONTINUED)

(a) INCOME TAX EXPENSE (CONTINUED)

During the three and six months ended June 30, 2013, the Group recognized an income tax expense of \$4.8 million (2012: \$4.5 million) and \$1.8 million (2012: \$3.9 million), respectively, associated with its Italian solar power projects, based on the forecasted effective tax rate expected during 2013. During the second quarter of 2013, the Italian government expanded the scope of the "Robin Hood" tax (applicable to companies operating in the energy sector) now affecting five of the Group's operating solar projects (previously only applicable to one of the Group's operating solar projects), resulting in an increase to the corporate income tax rate in Italy from 27.5% to 38%. In 2014, the incremental tax associated with the Robin Hood tax legislation will be reduced to 6.5%, reducing the corporate income tax rate to 34% for 2014 and beyond for the solar projects affected by this additional tax.

Due to the seasonality of revenues generated from solar electricity, the Italian subsidiaries recognized taxable losses during the three months ended March 31, 2013 and 2012, which were offset by taxable income generated during the three months ended June 30, 2013 and 2012, resulting in a taxable income position for the first six months of 2013 and 2012.

During the three and six months ended June 30, 2013, the Group recognized a deferred income tax recovery of \$1.6 million (2011: \$1.5 million) and \$0.7 million (2012: \$1.4 million), respectively, in relation to temporary differences arising between the tax bases of assets and liabilities and their carrying amounts and utilized tax losses.

(b) CURRENT INCOME TAX LIABILITIES

	June 30 2013 \$'000	December 31 2012 \$'000
Corporate income tax	1,389	281
Provincial income tax	563	323
Total current income tax liabilities	1,952	604

11. (LOSS)/EARNINGS PER SHARE

Basic and diluted loss/earnings per share is calculated by dividing the net loss/income for the period by the weighted average number of shares outstanding during the period as follows:

	Three months ended		Six months ended	
	June 30 2013 \$'000	June 30 2012 \$'000	June 30 2013 \$'000	June 30 2012 \$'000
(Loss)/income attributable to owners of the Company	(238)	756	(5,694)	(1,545)
	Number of shares		Number of shares	
Weighted average number of shares outstanding (basic)	205,746,419	205,746,419	205,746,419	196,691,574
Adjustments for dilutive potential ordinary shares:				
- Stock options	-	45,665	-	-
Weighted average number of shares outstanding (diluted)	205,746,419	205,792,084	205,746,419	196,691,574
Basic (loss)/earnings per share	\$(0.001)	\$0.004	\$(0.028)	\$(0.008)
Diluted (loss)/earnings per share	\$(0.001)	\$0.004	\$(0.028)	\$(0.008)

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*Expressed in US\$'000 unless otherwise stated***12. PROPERTY, PLANT AND EQUIPMENT**

	Land \$'000	Solar power projects \$'000	Equipment and furniture \$'000	Total \$'000
Cost:				
At December 31, 2012	13,206	380,340	1,716	395,262
Additions	-	29	42	71
Disposals	(22)	(186)	-	(208)
Exchange differences	(114)	(3,281)	(15)	(3,410)
At June 30, 2013	13,070	376,902	1,743	391,715
Accumulated depreciation:				
At December 31, 2012	-	42,059	995	43,054
Charge for the period	-	9,724	138	9,862
Disposals	-	(147)	-	(147)
Exchange differences	-	(388)	(9)	(397)
At June 30, 2013	-	51,248	1,124	52,372
Net book value:				
At December 31, 2012	13,206	338,281	721	352,208
At June 30, 2013	13,070	325,654	619	339,343

13. INTANGIBLE ASSETS

	Goodwill \$'000	Licenses and permits \$'000	Other \$'000	Total \$'000
Cost:				
At December 31, 2012	1,733	12,901	1,441	16,075
Additions	-	-	1,340	1,340
Impairment	-	-	(393)	(393)
Exchange differences	(17)	(114)	(118)	(246)
At June 30, 2013	1,716	12,787	2,270	16,773
Accumulated amortization:				
At December 31, 2012	-	1,456	-	1,456
Charge of the period	-	233	-	233
Exchange differences	-	(43)	-	(43)
At June 30, 2013	-	1,646	-	1,646
Net book value:				
At December 31, 2012	1,733	11,445	1,441	14,619
At June 30, 2013	1,716	11,141	2,270	15,127

During the six months ended June 30, 2013, general and administrative expenses of \$1.4 million (2012: \$nil) representing internally-generated costs (\$0.9 million) and third-party costs (\$0.5 million) were capitalized during the period within intangible assets, as they directly related to the Group's business development activities (Note 13).

During the six months ended June 30, 2013, the Group impaired certain costs associated with its business development activities (Note 8).

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14. CASH AND CASH EQUIVALENTS (INCLUDING RESTRICTED CASH)

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

	June 30 2013 \$'000	December 31 2012 \$'000
Cash at banks	25,300	37,750
Total cash and cash equivalents	25,300	37,750

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

	June 30 2013 \$'000	December 31 2012 \$'000
Unrestricted cash and cash equivalents	6,405	6,926
Cash and cash equivalents restricted to solar power projects	18,895	30,824
Total cash and cash equivalents	25,300	37,750

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

15. SHARE-BASED PAYMENTS

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

During the three and six months ended June 30, 2013, the Group recognized share-based payment expenses of \$0.2 million (2012: \$0.1 million) and \$0.3 million (2012: \$0.2 million), respectively, related to its stock option awards scheme.

A summary of the Company's outstanding stock options at June 30, 2013, is as follows:

	Number of share options	Weighted average exercise price CAD\$
At December 31, 2012	7,450,000	0.53
Granted	160,000	0.24
Cancelled	(22,000)	0.34
At June 30, 2013	7,588,000	0.50
Stock options exercisable:		
At December 31, 2012	3,247,667	0.67
At June 30, 2013	3,656,669	0.66

16. BORROWINGS

	Corporate borrowings \$'000	Non-recourse project loans \$'000	Total \$'000
At December 31, 2012	80,067	319,704	399,771
Repayment of loans and interest	(3,457)	(9,869)	(13,326)
Accrued interest	3,527	4,685	8,212
Amortization of transaction costs	94	341	435
Exchange differences	(716)	(2,711)	(3,427)
At June 30, 2013	79,515	312,150	391,665
- Current portion	1,413	32,740	34,153
- Non-current portion	78,102	279,410	357,512

At June 30, 2013 and December 31, 2012, the Group was not in breach of any of the imposed operational and financial covenants associated with its corporate borrowings and non-recourse project loans.

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16. BORROWINGS (CONTINUED)

(a) CORPORATE BORROWINGS

At June 30, 2013, the Group had €60 million of corporate bonds outstanding in the Norwegian bond market issued by the Company in April 2011 with an annual interest rate of 9% and a 4-year maturity. At June 30, 2013, the amount outstanding, including accrued interest and net of transaction costs, was \$79.5 million (December 31, 2012: \$80.1 million).

(b) NON-RECOURSE PROJECT LOANS

The non-recourse project loans (i.e., facilities to which the lending bank is only entitled to the assets from the associated project) held by the Group's Italian subsidiaries, obtained to finance the construction of the Group's solar power projects, mature at various dates between 2024 and 2028 and bear annual interest rates of Euribor plus a margin, ranging from 2.22% to 2.75%. 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 local utilities (Enel S.p.A. and Terna S.p.A.) and the proceeds from the collection of input VAT accumulated for construction costs.

17. DERIVATIVE FINANCIAL INSTRUMENTS

	June 30 2013 \$'000	December 31 2012 \$'000
Derivative financial liabilities:		
Interest rate swap contracts (cash flow hedges)		
- Current portion	9,253	9,662
- Non-current portion	28,825	40,558
Total derivative financial liabilities	38,078	50,220

The Group enters into interest rate swap contracts in order to hedge the risk of variations on the Group's cash flows as a result of floating interest rates on its non-recourse project loans. At June 30, 2013 and December 31, 2012, the Group had seven derivative financial instruments that qualified for hedge accounting and no derivative financial instruments classified at fair value through profit and loss. Refer to [Note 9](#) for further details relating to fair value movements recognized during the period. 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.

18. 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, held through various trusts, which collectively own approximately 24.5% of the Company.

(a) RELATED PARTY TRANSACTIONS

During the three and six months ended June 30, 2013 and 2012, the Group entered into the following transactions with related parties:

	Three months ended		Six months ended	
	June 30 2013 \$'000	June 30 2012 \$'000	June 30 2013 \$'000	June 30 2012 \$'000
General and administrative expenses				
Lundin Services BV	7	13	17	14
Finance costs				
Lundin Services BV:				
- Interest expense associated with corporate bond	221	220	444	444
- Transaction costs associated with corporate bond	6	3	12	8
Lundin family:				
- Interest expense associated with corporate bond	436	433	877	875
- Transaction costs associated with corporate bond	11	5	23	16
Total transactions with related parties	681	674	1,373	1,357

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18. RELATED PARTIES (CONTINUED)

At June 30, 2013, and December 31, 2012, the amounts outstanding to related parties were as follows:

	June 30 2013 \$'000	December 31 2012 \$'000
Current liabilities:		
Lundin family (short-term bridge loan)	-	1,500
Lundin Services BV:		
- General and administrative expenses	2	-
- Participation in corporate bond	179	180
Lundin family (participation in corporate bond)	353	356
Total current liabilities	534	2,036
Non-current liabilities:		
Lundin Services BV (participation in corporate bond)	9,893	9,945
Lundin family (participation in corporate bond)	19,525	19,628
Total non-current liabilities	29,418	29,573
Total amounts outstanding to related parties	29,952	31,609

There were no amounts outstanding from related parties at June 30, 2013, or December 31, 2012.

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.

At June 30, 2013, Lundin Services BV held €7.6 million (December 31, 2012: €7.6 million) of the corporate bonds issued by the Company in April 2011 at 9% annual interest with a 4-year maturity.

Lundin family

At June 30, 2013, the Lundin family held €15 million of the corporate bonds issued by the Company in April 2011 at 9% annual interest with a 4-year maturity.

(b) KEY MANAGEMENT PERSONNEL

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. The key management of the Group includes members of the Board of Directors, the Chief Executive Officer and the Chief Financial Officer. The remuneration of key management personnel was as follows:

	Three months ended		Six months ended	
	June 30 2013 \$'000	June 30 2012 \$'000	June 30 2013 \$'000	June 30 2012 \$'000
Salaries and short-term benefits	253	181	448	397
Board of Directors (non-executive directors)	29	60	51	120
Share-based payment	65	96	151	133
Pension costs	38	47	70	84
Termination payments	-	62	-	62
Total	385	446	720	796

The amounts outstanding to key management personnel were as follows:

	June 30 2013 \$'000	December 31 2012 \$'000
Board of Directors (non-executive directors)	6	60
Other (bonus payable and pension costs payable)	-	278
Total amounts outstanding to key management personnel	6	338

There were no amounts outstanding from key management personnel at June 30, 2013, or December 31, 2012.

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18. RELATED PARTIES (CONTINUED)

Mr. Northland's exchange right

During the first six months of 2012, upon the conversion by Mr. Northland of his 10% equity interest in the Company's subsidiary, SRH, for 18,210,299 common shares in the Company, an adjustment was made to release the previously recognized financial liability and contributed surplus of \$5.3 million and \$4.7 million, respectively, increasing the Group's share capital by \$10 million. In addition, the Group recognized other income of \$1.4 million during the three months ended March 31, 2012, to adjust the share-based payment expense previously recognized by the Group for the portion of the performance condition not met at conversion in accordance with *IFRS 2, Share-based Payments*.