



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

THREE AND SIX MONTHS ENDED JUNE 30, 2013

---

## CONTENTS

---

▪	<b>INTRODUCTION</b>	1
▪	<b>SECOND QUARTER 2013 HIGHLIGHTS</b>	1
▪	<b>BUSINESS REVIEW</b>	
-	Business Overview	1
-	Operations Review	2
-	Development Activities	5
-	Market Overview	5
▪	<b>FINANCIAL REVIEW</b>	
-	Financial Results	7
-	Financial Position	11
-	Capital Investments	13
-	Critical Accounting Policies and Estimates	13
-	Related Parties	14
-	Financial Instruments	15
▪	<b>RISKS AND UNCERTAINTIES</b>	
-	Financial Risks	16
-	Non-Financial Risks	16
▪	<b>DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING</b>	17
▪	<b>CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION</b>	18
▪	<b>ADDITIONAL INFORMATION</b>	18

## 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 2, 2013, 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, 2013. Financial information is reported in United States ("US") dollars ("\$"). However, as the Group primarily operates in Europe, certain financial information has been reported in Euros ("€"). At June 30, 2013, the €/€ exchange rate was 1.30 (2012: 1.28) and the average exchange rate for the six months ended June 30, 2013, was 1.31 (2012: 1.32). The capacity of power plants in this document is described in approximate megawatts ("MW") on a direct current basis, also referred to as megawatt-peak (MWp).

This MD&A contains forward-looking information based on the Company's current expectations, estimates, projections and assumptions. This information is subject to a number of risks and uncertainties, many of which are beyond the Company's control. Users of this information are cautioned that actual results may differ materially from the information within. For information on material risk factors and assumptions underlying the forward-looking information, refer to the 'Cautionary Statement Regarding Forward-Looking Information' on page 18.

## SECOND QUARTER 2013 HIGHLIGHTS

	Three months ended		Six months ended	
	June 30 2013 \$'000	June 30 2012 \$'000	June 30 2013 \$'000	June 30 2012 \$'000
Revenue <sup>(1)</sup>	18,414	19,198	26,736	29,936
Gross profit	11,246	12,834	12,757	17,580
EBITDA <sup>(2)</sup>	14,312	15,999	19,053	25,146
EBITDA margin	77%	83%	71%	84%
Net (loss)/income	(238)	756	(5,694)	(1,545)
Adjusted net income before non-recurring and non-cash items <sup>(2)</sup>	4,805	5,309	5,058	6,668
Operating cash flow <sup>(3)</sup>	6,137	6,702	7,096	11,785
Working capital <sup>(4)</sup>	15,420	25,057	15,420	25,057

Notes:

- (1) Revenues are received in Euros and have been translated at the average €/€ exchange rate for the three and six months ended June 30, 2013, of 1.31 (2012: 1.32). Refer to 'Business Review – Operations Review' on pages 2 and 3 for an analysis of the production and revenue generated during the periods.
- (2) Refer to 'Financial Review – Financial Results' on pages 7 and 8 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).
- (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 7).
- (4) Working capital refers to current assets less current liabilities (refer to 'Financial Review – Financial Results' on page 7).

## BUSINESS REVIEW

### BUSINESS OVERVIEW

Etrion is an independent power producer that owns and operates renewable energy assets. The Company is listed on the Toronto Stock Exchange ("TSX") in Canada (primary listing) and the NASDAQ OMX Stockholm exchange ("NASDAQ OMX") in Sweden (secondary listing). Etrion is based in Geneva, Switzerland with offices in Rome, Italy and Santiago, Chile.

The Company operates in the downstream sector of the renewable energy value chain, focusing on owning and operating renewable energy projects. 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 has an operating platform in Europe consisting of approximately 60 MW of ground-based solar photovoltaic ("PV") power plants all located in Italy. In addition, Etrion is pursuing opportunities to diversify in terms of geography (i.e., expansion into South America) and contract regime (i.e., FIT revenues complemented by long-term power purchase agreements ("PPAs")).

Further, due to the accelerated cost reductions of renewable power facilities and certain markets evolving beyond the need for government incentives, Etrion is complementing its business by focusing on markets with abundant renewable resources (i.e., high solar irradiation) and large energy demand where it will enter into long-term PPAs with industrial clients or local utilities. Specifically, in July 2013, the Group signed its first PPA to develop, build and own a solar project with a total capacity of 8.8 MW ("Aguas Blancas") that will provide solar electricity to a mining company in the north of Chile that is expected to be operational in the second quarter of 2014.

## BUSINESS REVIEW (CONTINUED)

### BUSINESS OVERVIEW (CONTINUED)

In addition, Etrion continues to evaluate opportunities in markets with attractive government incentives (such as FITs) and strong business fundamentals, where the Company believes it can develop and/or acquire additional renewable energy projects. Future growth will be driven by the development and/or acquisition of additional renewable energy projects under long-term contracts in markets with: (a) high electricity prices and abundant renewable resources; or (b) attractive government incentives.

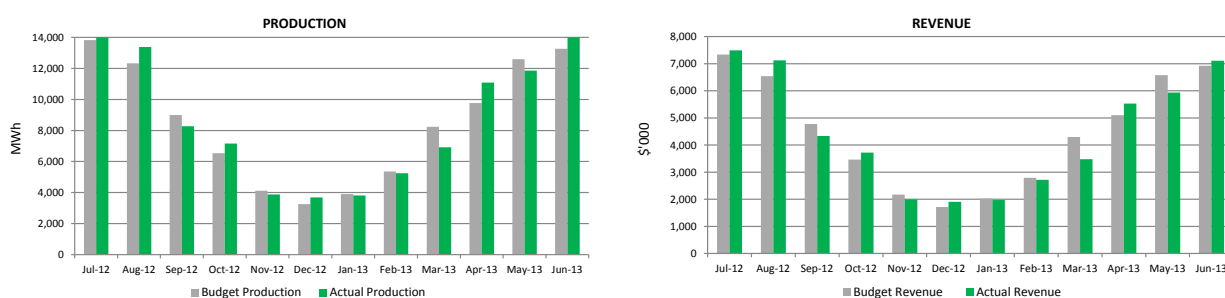
Refer to 'Business Review – Development Activities' on page 5 for a summary of the Group's development activities in Chile and an update on its first Chilean solar project (Aguas Blancas).

### OPERATIONS REVIEW

#### OPERATING PERFORMANCE

During the three and six months ended June 30, 2013, the Group recognized revenues from seven solar power projects all located in Italy (Cassiopea, Helios ITA-3, Centauro, Helios ITA, Etrion Lazio, SVE and Sagittario), comprising seventeen 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%. This seasonality should smooth over time as the Group secures new projects in South America. 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 more than 1% more electricity and revenues than budgeted over the last twelve months, primarily attributable to more daily sun hours and better performance of the Group's solar power projects than expected.

#### Performance against budget

Production and revenue for the three and six months ended June 30, 2013, compared to budget and the same periods of 2012, are as follows:

	Three months ended June 30, 2013				Six months ended June 30, 2013			
	Actual	Budget	Variance	%	Actual	Budget	Variance	%
Production <sup>(1)</sup> (MWh)	37,141	35,628	1,513	4	53,097	53,128	(31)	0
Revenue (\$'000)	18,414	18,554	(140)	(1)	26,736	27,719	(983)	(4)

Note:

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

During the second quarter of 2013, the Group produced approximately 4% more solar electricity than budgeted due to higher solar irradiation than expected. However, due to lower than expected solar irradiation in the first quarter of 2013, the production for the first six months of 2013 was not above expectation.

The Group's revenues were also adversely impacted by a lower average price per kilowatt-hour ("kWh") due to a reduction in the spot market price in Italy. Further, the Group received an average of \$0.07 per kWh during the three and six months ended June 30, 2013, compared to the budget of \$0.09 per kWh. This resulted in approximately 1% and 4% less revenues for the three and six months ended June 30, 2013, respectively, compared to the same periods of 2012.

## BUSINESS REVIEW (CONTINUED)

### OPERATIONS REVIEW (CONTINUED)

#### OPERATING PERFORMANCE (CONTINUED)

##### Performance against prior year

The following summarizes the Group's actual revenue and production for the three and six months ended June 30, 2013, compared to the same periods of 2012:

	Three months ended June 30				Six months ended June 30			
	2013	2012	Variance	%	2013	2012	Variance	%
Production (MWh)	37,141	37,355	(214)	(1)	53,097	57,483	(4,386)	(8)
Revenue (\$'000)	18,414	19,198	(784)	(4)	26,736	29,936	(3,200)	(11)

During the three and six months ended June 30, 2013, the Group produced approximately 1% and 8% less solar electricity, respectively, compared to the same periods of 2012, due to lower solar irradiation in 2013 while the weather conditions in 2012 were well above expectation.

The Group's revenues were also adversely impacted by a lower average price per kWh due to a reduction in the spot market price in Italy. Further, the Group received an average of \$0.07 per kWh during the three and six months ended June 30, 2013, compared to \$0.09 per kWh for the three months ended June 30, 2012 and \$0.10 for the six months ended June 30, 2012. This resulted in approximately 4% and 11% less revenues for the three and six months ended June 30, 2013, respectively, compared to the same periods of 2012.

Production and pricing information for the three and six months ended June 30, 2013, compared to the same periods of 2012 is as follows:

Three months ended June 30:	2013			2012		
	MWh	Price <sup>(1)</sup> (\$/kWh)	Revenue \$'000	MWh	Price <sup>(1)</sup> (\$/kWh)	Revenue \$'000
FiT revenues (based on actual production) <sup>(2)</sup>	37,141	0.43	16,037	37,355	0.42	15,872
Market Price revenues (based on evacuated production) <sup>(2)</sup>	36,467	0.07	2,377	36,659	0.09	3,326
<b>Total revenue</b>			<b>18,414</b>			<b>19,198</b>

Six months ended June 30:	2013			2012		
	MWh	Price <sup>(1)</sup> (\$/kWh)	Revenue \$'000	MWh	Price <sup>(1)</sup> (\$/kWh)	Revenue \$'000
FiT revenues (based on actual production) <sup>(2)</sup>	53,097	0.43	22,966	57,483	0.43	24,527
Market Price revenues (based on evacuated production) <sup>(2)</sup>	52,156	0.07	3,770	55,595	0.10	5,409
<b>Total revenue</b>			<b>26,736</b>			<b>29,936</b>

Notes:

- (1) Revenues received in Euros were translated at the average €/€ exchange rate for the three and six months ended June 30, 2013, of 1.31 (2012: 1.32).
- (2) The FiT is received for each kWh of electricity produced. The spot market price ("Market Price") is received in addition to the FiT and is based on evacuated production (i.e., electricity produced less transmission losses).

Revenues for the three and six months ended June 30, 2013, were adversely impacted by: (a) lower solar irradiation than compared to 2012, as 2012 production was well above expectation; and (b) a reduction in the average spot market price in Italy accounting for approximately 13% (2012: 17%) and 14% (2012: 18%) of the Group's total revenues generated during the three and six months ended June 30, 2013, respectively. As outlined above, the Group receives revenues from two sources, the FiT, which is secured by long-term contracts (i.e., FiT contracts), as outlined on page 6 within 'Business Review – Market Overview' and the Market Price which is subject to fluctuations as it is based on the spot market price in Italy.

#### OPERATING PROJECTS

A summary of the Group's current operating solar power projects all located in Italy at June 30, 2013 is as follows:

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

Notes:

- (1) FiT per kWh, based on connection date. In Italy, revenues are derived from the FiT and Market Price, both received for each kWh of electricity produced.
- (2) Six of the Helios ITA solar parks benefit from the 2009 FiT of €0.353 per kWh, and the last park built benefits from the 2010 FiT of €0.346 per kWh.
- (3) Etrion Lazio was installed at the end of 2010. However, the project was not connected to the electricity grid until April 2011.

## **BUSINESS REVIEW (CONTINUED)**

---

### **OPERATIONS REVIEW (CONTINUED)**

#### **OPERATING PROJECTS (CONTINUED)**

##### *Cassiopea*

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

##### *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 poly-crystalline PV modules mounted on SunPower single axis trackers with power conversion completed through Bonfiglioli inverters. Helios ITA-3 has an O&M contract with ABB, including preventive and corrective maintenance.

Both solar parks benefit from the August 2011 FIT of €0.250 per kWh plus the Market Price, which is based on the spot market price in Italy.

##### *Centauro*

The Centauro project in Montalto di Castro in the Lazio region of Italy consists of one ground-mounted solar PV park with a total capacity of 8.7 MW. The solar park was connected to the electricity grid in July 2010. The Centauro solar park was built by SunPower using high efficiency SunPower modules mounted on single axis trackers with power conversion completed through SMA inverters. Centauro has an O&M contract with SunPower, including preventive and corrective maintenance. The solar park benefits from the 2010 FIT of €0.346 per kWh plus the Market Price, which is based on the spot market price in Italy.

##### *Helios ITA*

The Helios ITA project in Puglia, Italy, consists of seven ground-mounted solar PV parks with a total capacity of 6.4 MW. Six of the solar parks were connected to the electricity grid in December 2009 and the last park built was connected in December 2010. The Helios ITA solar parks were built by Solon S.p.A. ("Solon"), a German solar panel manufacturer and installer, using single axis trackers with Solon poly-crystalline modules and Santerno inverters. In July 2012, the Group entered into a new O&M contract, including preventive and corrective maintenance, with ABB, the previous O&M contract was with Solon. 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 of approximately €0.07 per kWh. The last park built (0.6 MW) benefits from the 2010 FIT of €0.346 per kWh plus the Market Price, which is based on the spot market price in Italy.

##### *Etrion Lazio*

The Etrion Lazio project in Lazio, Italy, consists of two ground-mounted solar PV parks: Borgo Piave (3.5 MW) and Rio Martino (1.7 MW). Both solar parks were completed in December 2010 and were connected to the electricity grid in April 2011. The Etrion Lazio solar parks were built by Phoenix Solar ("Phoenix"), a German PV system integrator, using Trina poly-crystalline PV modules installed on fixed-tilt structures with power conversion completed through SMA inverters. Etrion Lazio has an O&M contract with Phoenix, including preventive and corrective maintenance. Both solar parks benefit from the 2010 FIT of €0.346 per kWh plus the Market Price, which is based on the spot market price in Italy.

##### *SVE*

The SVE project in Puglia, Italy, consists of three ground-mounted solar PV parks: Oria (1 MW), Matino (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, which is based on the spot market price in Italy.

## **BUSINESS REVIEW (CONTINUED)**

---

### **OPERATIONS REVIEW (CONTINUED)**

#### **OPERATING PROJECTS (CONTINUED)**

##### *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 €0.250 per kWh plus the Market Price, which is based on the spot market price in Italy.

Refer also to 'Business Review – Market Overview' on page 6 for an overview of the renewable energy market in Italy.

### **DEVELOPMENT ACTIVITIES**

#### **CHILE**

Etrion is pursuing renewable energy projects in South America, with an initial focus on Chile, due to the high solar irradiation and large energy demand. In these markets, the Group can compete with traditional sources of electricity without the need for government incentives.

Refer to 'Business Review – Market Overview' on page 6 for an overview of the renewable energy market in Chile.

##### Aguas Blancas

In July 2013, Etrion entered into a long-term fixed price take-or-pay PPA with Atacama Minerals Chile S.C.M. to sell electricity to its Aguas Blancas iodine mine in the north of Chile. The Company plans to build, own and operate the Aguas Blancas solar park with a total capacity of up to 8.8 MW that is expected to be operational in the second quarter of 2014. The total project cost, including costs related to the licences, permits, development and construction, is estimated to be \$25 million, a portion of which is expected to be financed through non-recourse project debt with international financial institutions, with the remaining equity portion to be funded by Etrion.

Construction of the Aguas Blancas, which is expected to commence in the fourth quarter of this year, is subject to Etrion arranging the necessary debt financing as well as other conditions customary for transactions of this nature.

##### Development pipeline

Etrion is also pursuing other opportunities in Chile to develop and/or acquire additional renewable energy projects, in varying stages of development and expects additional projects to be secured throughout 2013 and beyond.

### **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 (for example Chile, where the Group is competing with traditional sources of electricity without government subsidies). As the cost of solar technology continues to drop, 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;

## BUSINESS REVIEW (CONTINUED)

### MARKET OVERVIEW (CONTINUED)

- increased concern about long-term climate change and focus on reducing carbon emissions from energy generation using fossil fuels;
- political commitment at global, national and regional levels to support the development and use of renewable energy sources; and
- attractive government incentives, such as FiT, capital subsidies and tax incentives 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. This combined with the strong solar irradiation and high electricity prices, has led to a 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 subsidy program, but the actual cost of the subsidy is paid by the ultimate consumer through a small tax on utility bills.

The Italian FiT is a 20-year commitment from the government to purchase 100% of the 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 receive the spot market rate on a per kWh basis. The Market Price during the three and six months ended June 30, 2013 was approximately €0.05 per kWh of electricity produced.

Although several changes have been made to the FiT regime in Italy for renewable energy sources such as solar (specifically, the decree approved in May 2011 establishing new tariffs for solar PV plants and the fifth ‘Conto Energia’ renewable energy law approved in April 2012 setting out a new scheme for the installation of solar PV plants), the Group’s operating solar projects were not affected by these changes, apart from an additional administrative fee of approximately €0.0005 per kWh produced established by the fifth ‘Conto Energia’ renewable energy law.

Refer to ‘Business Review – Operations Review’ on pages 3 to 5 for an overview of the Group’s operating projects in Italy.

### CHILEAN MARKET

Chile’s energy demand has been growing rapidly since 1990, a result of 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. The energy sector is largely privatized which enables energy producers to enter into bilateral agreements directly with industrial clients. The Chilean government has also instituted a “clean energy” mandate requiring 10% of its electricity to be generated from renewable sources by 2024, demonstrating strong support for the development and use of renewable energy sources. Due to the size of Chile’s economy and 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% of the electricity consumption is by industrial users, such as mining operations.

The cost of solar generation has dropped significantly, enabling Etrion to provide competitive electricity solutions particularly in areas of high solar irradiation without the need for government subsidies. Chile is a country with abundant renewable resources (i.e., strong solar irradiation), high wholesale electricity prices and a large energy demand making it an ideal country for Etrion to grow and diversify through new opportunities.

Refer to ‘Business Review – Development Activities’ on page 5 for an overview of the Group’s development activities in Chile and an update on its first Chilean solar project (Aguas Blancas).



## BUSINESS REVIEW (CONTINUED)

### MARKET OVERVIEW (CONTINUED)

#### OTHER MARKETS

Incentive structures for solar power generation currently exist in many markets (including Europe, Japan and North America) 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. Etrion will continue to evaluate new markets with attractive government incentives where it can develop and/or acquire additional renewable projects and will remain opportunistic for solar power projects in Europe.

In addition, as the cost of renewable power generation continues to drop, Etrion will be able to compete with traditional sources of electricity in new markets with abundant renewable resources and high electricity prices. Specifically, the Group is currently evaluating opportunities to expand into other regions of South America, where it will enter into long-term PPAs with industrial users or the local utility.

## 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 2013 \$'000	June 30 2012 \$'000	June 30 2013 \$'000	June 30 2012 \$'000
<b>Revenue</b>	<b>18,414</b>	<b>19,198</b>	<b>26,736</b>	<b>29,936</b>
<b>Gross profit</b>	<b>11,246</b>	<b>12,834</b>	<b>12,757</b>	<b>17,580</b>
<b>Net (loss)/income<sup>(1)</sup></b>	<b>(238)</b>	<b>756</b>	<b>(5,694)</b>	<b>(1,545)</b>
Adjustments for non-recurring and non-cash items:				
- Other expenses/(income) (non-recurring) <sup>(2)</sup>	234	(588)	627	(1,991)
- Depreciation and amortization (non-cash)	5,015	4,913	10,095	9,989
- Fair value movements (derivative financial instruments) (non-cash)	(358)	148	(290)	56
- Share-based payment expense (non-cash)	152	80	320	159
<b>Adjusted net income before non-recurring and non-cash items<sup>(3)</sup></b>	<b>4,805</b>	<b>5,309</b>	<b>5,058</b>	<b>6,668</b>
<b>Net (loss)/income</b>	<b>(238)</b>	<b>756</b>	<b>(5,694)</b>	<b>(1,545)</b>
Adjustments for:				
- Net income tax expense	3,173	2,960	1,140	2,512
- Depreciation and amortization	5,015	4,913	10,095	9,989
- Loss(gain) on asset disposal	16	-	(1)	-
- Share-based payment expense	152	80	320	159
- Net finance costs	6,204	7,282	13,283	13,996
- Other expenses/(income)	234	15	627	(1,388)
- Income tax paid	(986)	(778)	(1,029)	(778)
- Changes in working capital	(7,433)	(8,526)	(11,645)	(11,160)
<b>Operating cash flow<sup>(4)</sup></b>	<b>6,137</b>	<b>6,702</b>	<b>7,096</b>	<b>11,785</b>

Notes:

- (1) Net loss/income for the period includes both the loss/income from continuing operations and the loss/income attributable to owners of the parent company. Basic and diluted loss per share for the three months ended June 30, 2013, was \$0.001 (2012: earnings per share of \$0.004) and basic and diluted loss per share for the six months ended June 30, 2013, was \$0.028 (2012: \$0.008).
- (2) During the six months ended June 30, 2013, the Group impaired \$0.4 million of costs associated with its business development activities, offset by other income of \$0.1 million. During the six months ended June 30, 2012, the net results were positively impacted by non-recurring other income of \$1.4 million related to the 10% equity interest in the Company's subsidiary, Solar Resources Holding Sarl ("SRH"), previously held by Marco A. Northland, the Company's Chief Executive Officer and director ("Mr. Northland") and other expenses of \$0.6 million.
- (3) Adjusted net loss/income before non-recurring and non-cash items is a non-IFRS measure.
- (4) Operating cash flow refers to cash flows before investing and financing activities, working capital adjustments and the effects of foreign exchange rate differences.

	June 30 2013 \$'000	December 31 2012 \$'000
Non-current assets	367,948	385,166
Current assets	68,552	67,611
<b>Total assets</b>	<b>436,500</b>	<b>452,777</b>
Non-current liabilities	394,127	417,515
Current liabilities	53,132	49,908
<b>Total liabilities</b>	<b>447,259</b>	<b>467,423</b>
Working capital (current assets less current liabilities)	15,420	17,703
Dividends declared	-	-

## FINANCIAL REVIEW (CONTINUED)

### FINANCIAL RESULTS (CONTINUED)

#### SECOND QUARTER SELECTED FINANCIAL INFORMATION (CONTINUED)

Refer to 'Financial Review – Financial Results' on pages 9 to 11 for the variance analysis relating to Etrion's condensed consolidated interim financial information for the three and six months ended June 30, 2013 compared to the same periods of 2012.

#### QUARTERLY SELECTED FINANCIAL INFORMATION

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

	2013		2012				2011	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	18,414	8,322	7,385	18,341	19,198	10,738	8,585	18,219
Net (loss)/income <sup>(1)</sup>	(238)	(5,456)	(7,292)	379	756	(2,301)	(19,795)	(2,849)
Basic and diluted (loss)/earnings per share	(0.001)	(0.027)	(0.036)	0.002	0.004	(0.012)	(0.110)	(0.020)

Note:

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

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 every calendar year. Such variations should smooth over time as the Group secures additional solar power projects in Chile or other parts of South America.

#### SECOND QUARTER RESULTS

##### EBITDA

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

	2013			2012		
	Renewable energy <sup>(1)</sup> \$'000	Corporate <sup>(1)</sup> \$'000	Total \$'000	Renewable energy <sup>(1)</sup> \$'000	Corporate <sup>(1)</sup> \$'000	Total \$'000
<b>Three months ended June 30:</b>						
Revenue	18,414	-	18,414	19,198	-	19,198
Operating expenses <sup>(2)</sup>	(2,241)	-	(2,241)	(1,518)	-	(1,518)
General and administrative expenses <sup>(2)</sup>	(387)	(1,240)	(1,627)	(338)	(1,931)	(2,269)
Other (expenses)/income	(318)	84	(234)	441	147	588
<b>EBITDA<sup>(3)</sup></b>	<b>15,468</b>	<b>(1,156)</b>	<b>14,312</b>	<b>17,783</b>	<b>(1,784)</b>	<b>15,999</b>
Non-recurring items <sup>(4)</sup> :						
Other expenses/(income)	318	(84)	234	(441)	(147)	(588)
<b>Adjusted EBITDA</b>	<b>15,966</b>	<b>(1,240)</b>	<b>14,546</b>	<b>17,342</b>	<b>(1,931)</b>	<b>15,411</b>
<b>Six months ended June 30:</b>						
Revenue	26,736	-	26,736	29,936	-	29,936
Operating expenses <sup>(2)</sup>	(4,066)	-	(4,066)	(2,504)	-	(2,504)
General and administrative expenses <sup>(2)</sup>	(717)	(2,273)	(2,990)	(545)	(3,732)	(4,277)
Other (expenses)/income	(318)	(309)	(627)	441	1,550	1,991
<b>EBITDA<sup>(3)</sup></b>	<b>21,635</b>	<b>(2,582)</b>	<b>19,053</b>	<b>27,328</b>	<b>(2,182)</b>	<b>25,146</b>
Non-recurring items <sup>(4)</sup> :						
Other expenses/(income)	318	309	627	(441)	(1,550)	(1,991)
<b>Adjusted EBITDA</b>	<b>21,953</b>	<b>(2,273)</b>	<b>19,680</b>	<b>26,887</b>	<b>(3,732)</b>	<b>23,155</b>

Notes:

- (1) The renewable energy segment includes only the Group's solar power projects. All other revenues, expenses, assets and liabilities are included within the corporate segment, which includes the Group's passive oil and gas investments and all corporate overhead expenditures.
- (2) Operating expenses and general and administrative expenses shown here, for the purposes of calculating EBITDA and adjusted EBITDA, exclude depreciation and amortization expenses. Corporate general and administrative expenses of \$0.7 million and \$1.1 million, incurred during the three and six months ended June 30, 2012, relating to internally generated costs and property taxes directly attributable to the Group's operating renewable energy assets, were reclassified to operating expenses associated with the Group's renewable energy assets, adjusting the amounts previously reported to be consistent with the classification of expenditure applied in 2013.
- (3) EBITDA is a non-IFRS measure and adjusted EBITDA excludes non-recurring items recognized during the relevant year.
- (4) Refer to 'Financial Review – Financial Results' on page 7 for an overview of the non-recurring items that occurred during the relevant periods.

## FINANCIAL REVIEW (CONTINUED)

### FINANCIAL RESULTS (CONTINUED)

#### SECOND QUARTER RESULTS (CONTINUED)

##### Revenue

	Three months ended		Six months ended	
	June 30	June 30	June 30	June 30
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
FiT revenue	16,037	15,872	22,966	24,527
Market Price revenue	2,377	3,326	3,770	5,409
<b>Total revenue</b>	<b>18,414</b>	<b>19,198</b>	<b>26,736</b>	<b>29,936</b>

Revenues decreased by \$0.8 million (4%) and \$3.2 million (11%) during the three and six months ended June 30, 2013, respectively, compared to the same periods of 2012, due to lower solar irradiation (as production for 2012 was well above expectation) and a reduction in the spot market price in Italy (as outlined in the 'Business Review – Operations Review' on pages 2 and 3).

##### Operating expenses

	Three months ended		Six months ended	
	June 30	June 30	June 30	June 30
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
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 tax)	438	415	868	563
Insurance	110	118	221	223
Land lease	53	48	106	99
Other operating expenses	463	310	732	573
<b>Total operating expenses</b>	<b>7,168</b>	<b>6,364</b>	<b>13,979</b>	<b>12,356</b>

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.

Operating expenses increased by \$0.8 million (13%) and by \$1.6 million (13%) during the three and six months ended June 30, 2013, respectively, compared to the same periods of 2012, due to additional O&M expenses associated with three of the Group's solar power projects (Cassiopea, Centauro and Helios ITA) that commenced after the second year of operations and higher property taxes associated with the Group's solar power projects due to a change in the Italian property tax legislation.

The Group's solar power projects (included within property, plant and equipment) and licences 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
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Salaries and benefits <sup>(1)</sup>	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
Depreciation and amortization (corporate assets)	118	112	239	227
Office lease expenses	90	67	183	137
Office, travel and other general and administrative expenses <sup>(1)</sup>	151	595	203	773
<b>Total general and administrative expenses</b>	<b>1,715</b>	<b>2,336</b>	<b>3,172</b>	<b>4,414</b>

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.

## FINANCIAL REVIEW (CONTINUED)

### FINANCIAL RESULTS (CONTINUED)

#### SECOND QUARTER RESULTS (CONTINUED)

##### General and administrative expenses (continued)

General and administrative expenses decreased by \$0.6 million (27%) and by \$1.2 million (28%) during the three and six months ended June 30, 2013, respectively, compared to the same periods of 2012, due to the capitalization of internally-generated costs within intangible assets, directly attributable to the Group's business development activities, a lower headcount, a reduction to the compensation of the Company's board of directors and a reduction in travel and other office related expenditures, offset by higher share-based payment expenses.

##### 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)	-	-	-	(1,403)
Other income (net)	234	(588)	234	(588)
<b>Total other expenses/(income)</b>	<b>234</b>	<b>(588)</b>	<b>627</b>	<b>(1,991)</b>

During the six months ended June 30, 2013, the Group impaired \$0.4 million of costs associated with its business development activities in Chile.

During the six months ended June 30, 2012, the Group recognized other income of \$1.4 million related to the 10% equity interest in the Company's subsidiary, SRH, previously held by Mr. Northland, 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* ("IFRS 2").

##### Net finance costs

	Three months ended		Six months ended	
	June 30 2013 \$'000	June 30 2012 \$'000	June 30 2013 \$'000	June 30 2012 \$'000
Interest expense associated with non-recourse project loans <sup>(1)</sup>	4,869	4,914	9,835	9,977
Interest expense associated with corporate borrowings <sup>(1)</sup>	1,823	1,888	3,633	3,829
Net fair value movements associated with derivative financial instruments	(358)	148	(290)	56
Foreign exchange	(28)	409	208	211
Other net finance costs	56	11	126	117
<b>Net finance costs</b>	<b>6,362</b>	<b>7,370</b>	<b>13,512</b>	<b>14,190</b>

Note:

(1) Interest expense shown here includes transaction costs.

Finance costs decreased by \$1.0 million (14%) and \$0.7 million (5%) during the three and six months ended June 30, 2013, respectively, compared to the same periods of 2012, primarily due to a reduction of interest expenses at the project level due to the self-amortizing nature of the Group's non-recourse project loans and the recognition of fair value gains associated with the Group's derivative financial instruments.

Refer to 'Financial Review – Financial Position' on page 12 for an overview of the Group's non-recourse project loans and corporate borrowings. All of the Group's non-recourse project loans are hedged through interest rate swap contracts which all qualify for hedge accounting.

##### 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	4,806	4,493	1,793	3,866
Deferred income tax recovery	(1,633)	(1,533)	(653)	(1,354)
<b>Total income tax expense</b>	<b>3,173</b>	<b>2,960</b>	<b>1,140</b>	<b>2,512</b>

## FINANCIAL REVIEW (CONTINUED)

---

### FINANCIAL RESULTS (CONTINUED)

#### SECOND QUARTER RESULTS (CONTINUED)

##### *Income tax expense (continued)*

During the second quarter of 2013, the Group's total income tax expense increased by \$0.2 million (7%) compared to the same period of 2012, primarily due to the application of a higher tax rate, due to a change in the Italian tax regime, offset by a reduction in the taxable income during the period. Further, in 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.

During the first six months of 2013, the Group's total income tax expense decreased by \$1.4 million (55%), compared to the same period of 2012, primarily due to a reduction in the taxable income recognized during the period, offset by a reduction to the Group's deferred income tax asset, as the liability position recognized in relation to the Group's derivative financial instruments was reduced due to a higher Euribor forecasted curve associated with the Group's interest rate swap contracts and a higher tax rate due to the expanded scope of the Robin Hood tax.

### FINANCIAL POSITION

During the first six months of 2013, the Group's total equity position increased by \$3.9 million (27%) from a net liability position of \$14.6 million at December 31, 2012, to a net liability position of \$10.8 million at June 30, 2013. This was due to the unrealized fair value gains of \$9.1 million recognized within other reserves associated with the Group's derivative financial instruments (i.e., interest rate swap contracts), foreign currency translation adjustments of \$0.2 million and share-based payment expenses of \$0.3 million, offset by the \$5.7 million net loss recognized by the Group during the period.

The Group's total equity at June 30, 2013, was adversely impacted by unrealized fair value losses of \$13.6 million recognized within other reserves associated with the Group's derivative financial instruments 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, 2013, would have been positive \$2.8 million.

#### LIQUIDITY AND FINANCING

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). Refer to 'Financial Review – Financial Position' on page 13 for an overview of the Group's going concern assumption assessment and working capital requirements.

The Group's cash and cash equivalents at June 30, 2013, included restricted cash of \$18.9 million (December 31, 2012: \$30.8 million), which 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 projects companies, subject to approval from the lending banks, either through repayment of shareholder loans, payment of interest on shareholder loans or dividend distributions.

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, 2012.

## 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, 2013, was as follows:

	June 30 2013 \$'000	December 31 2012 \$'000
<b>Total borrowings (per consolidated financial statements)</b>	<b>391,665</b>	<b>399,771</b>
Value added tax ("VAT") facilities <sup>(1)</sup>	(18,949)	(20,054)
Accrued interest <sup>(2)</sup>	(2,776)	(2,867)
Transaction costs <sup>(2)</sup>	10,151	10,952
<b>Total borrowings (excluding non-cash items)</b>	<b>380,091</b>	<b>387,802</b>
Cash and cash equivalents (including restricted cash)	(25,300)	(37,750)
<b>Adjusted net debt</b>	<b>354,791</b>	<b>350,052</b>

Notes:

- (1) VAT facilities are excluded from total borrowings as these facilities are to be repaid using the proceeds from input VAT received from the Italian tax authorities.
- (2) In accordance with IFRS, total borrowings include accrued interest and are shown net of transaction costs. These non-cash items are excluded from total borrowings to calculate adjusted net debt (on a cash flow basis).

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 non-recourse project loans and corporate borrowings.

##### Corporate borrowings

In April 2011, the Company issued €60 million of corporate bonds in the Norwegian bond market 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).

The corporate bond agreement includes a call option that allows the Company to redeem the bond early (in full or in part), after the first, second and third year at a specified percentage over par value (i.e., a fixed premium) of 5%, 3% and 1%, respectively. At June 30, 2013, no amount was recognized in relation to this option. In addition, the corporate bond has a minimum unrestricted cash balance requirement of €3 million.

##### Non-recourse project loans

The following is a summary of the Group's non-recourse project loans denominated in Euros, translated at the closing €/€ exchange rate of 1.31 at June 30, 2013, and 1.34 at December 31, 2012:

	Capacity (MW)	Financial institution	Maturity	Balance outstanding <sup>(1)</sup>	
				June 30 2013 \$'000	December 31 2012 \$'000
Cassiopea	23.9	BIIS <sup>(2)</sup> , Societe Generale and Portigon	March 31, 2024	137,251	140,370
Helios ITA-3	10	Natixis, Portigon and Mediocreval	June 30, 2027	43,876	45,317
Centaurus	8.7	Barclays	September 30, 2028	49,720	50,736
Helios ITA	6.4	Societe Generale and Dexia	June 30, 2024	36,910	37,214
Etrion Lazio	5.2	Natixis, Portigon and Mediocreval	June 30, 2027	20,327	21,027
SVE	3.0	Centrobanca	June 30, 2028	15,411	16,032
Sagittario	2.6	Natixis, Portigon and Mediocreval	June 30, 2027	8,655	9,008
<b>Total</b>	<b>59.8</b>			<b>312,150</b>	<b>319,704</b>

Notes:

- (1) Balances outstanding include the VAT facilities associated with the loans (to be repaid using the proceeds from input VAT from the Italian tax authorities) and accrued interest net of transaction costs (in accordance with IFRS). According to the facility agreements, the VAT facilities are to be repaid within forty-eight months from the amounts collected from the Italian tax authorities for input VAT on the Group's construction activities.
- (2) BIIS represents the Banca Infrastrutture Innovazione e Sviluppo (Intesa Sanpaolo Group).

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%. At June 30, 2013 and December 31, 2012, all non-recourse projects loans were hedged through interest rate swap contracts. Counterparties to the non-recourse project loans do not have unconditional or unilateral discretionary rights to accelerate repayment to earlier dates.

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 with the GSE and the proceeds from the collection of input VAT accumulated for construction costs.

## **FINANCIAL REVIEW (CONTINUED)**

---

### **FINANCIAL POSITION (CONTINUED)**

#### **LIQUIDITY AND FINANCING (CONTINUED)**

##### *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 recognized a net loss of \$5.7 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 this MD&A.

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

The Company's condensed consolidated interim financial statements for the 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.

#### **OUTSTANDING SHARE DATA**

At the date of this MD&A, the Company had 205,746,419 common shares (December 31, 2012: 205,746,419) and options to purchase up to 7,588,000 common shares (December 31, 2012: 7,450,000) issued and outstanding. The options expire at various dates between September 30, 2013, and April 28, 2018, with exercise prices in Canadian dollars ("CAD\$") ranging between CAD\$0.24 and CAD\$1.59 per share.

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

The Group had no off-balance sheet arrangements at June 30, 2013 and December 31, 2012.

#### **CAPITAL INVESTMENTS**

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

At June 30, 2013, and December 31, 2012, the Group had no committed capital expenditures outstanding.

#### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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

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 consolidated financial statements for the year ended December 31, 2012.



## FINANCIAL REVIEW (CONTINUED)

---

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

However, during the three and six months ended June 30, 2013, the Group adopted *IAS 19 (revised)*, *Employee Benefits* (clarifying what is included in annual costs for defined benefit plans, requiring actuarial gains and losses to be recognized immediately in comprehensive income and 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), *IFRS 10, Consolidated Financial Statements* (building 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), *IFRS 13, Fair value measurements* (aiming 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), all of which did not have a significant impact on the condensed consolidated interim financial statements for the three and six months ended June 30, 2013.

### 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, whose position is held through various trusts which collectively own approximately 24.5% of the Company's share capital. 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 condensed consolidated interim financial statements for the three and six months ended June 30, 2013 are summarized below and on page 15.

#### 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, 2013, the Group incurred general and administrative expenses of \$7,000 (2012: \$13,000) and \$17,000 (2012: \$14,000), respectively, from Lundin Services BV and at June 30, 2013 the Group had \$2,000 (December 31, 2012: \$nil) outstanding in relation to these expenses.

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. During the three and six months ended June 30, 2013, the Group recognized \$0.2 million (2012: \$0.2 million) and \$0.4 million (2012: \$0.4 million), respectively, of interest expense and \$6,000 (2012: \$3,000) and \$12,000 (2012: \$8,000), respectively, of transaction costs associated with the portion of the corporate bonds held by Lundin Services BV. At June 30, 2013, the Group had \$10 million (December 31, 2012: \$10.1 million) outstanding in relation to the corporate bond.

##### *Lundin family*

At June 30, 2013, investment companies associated the Lundin family held €15 million of the corporate bonds issued by the Company at 9% annual interest with a 4-year maturity. During the three and six months ended June 30, 2013, the Group recognized \$0.4 million (2012: \$0.4 million) and \$0.9 million (2012: \$0.9 million), respectively, of interest expense and \$11,000 (2012: \$5,000) and \$23,000 (2012: \$16,000), respectively, of transaction costs associated with the portion of the corporate bonds held by investment companies associated with the Lundin family. At June 30, 2013, the Group had \$19.9 million (December 31, 2012: \$20 million) outstanding in relation to the corporate bond.

In December 2012, the Group received \$1.5 million from an investment company associated with the Lundin family, in order to fund certain business development activities. The short-term loan was non-interest bearing and was fully repaid in February 2013.

#### 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.



## FINANCIAL REVIEW (CONTINUED)

### RELATED PARTIES (CONTINUED)

#### KEY MANAGEMENT PERSONNEL (CONTINUED)

During the three and six months ended June 30, 2013, the Group recognized \$0.4 million (2012: \$0.4 million) and \$0.7 million (2012: \$0.8 million) within general and administrative expenses associated with the remuneration of key management personnel, related to salaries and short-term benefits, termination benefits, pension costs, fees paid to the Board of Directors and share-based payment expenses. At June 30, 2013, the Group had \$6,000 outstanding to key management personnel, related to fees payable to the Board of Directors. At December 31, 2012, the Group had \$0.3 million outstanding to key management personnel for 2012 bonus compensation and fees payable to the Board of Directors.

#### Mr. Northland's exchange right

During the first six months of 2012, upon the conversion by Mr. Northland of this right to convert his 10% equity interest in 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.

### FINANCIAL INSTRUMENTS

#### 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, seeking 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 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 and the Company's 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, 2012, 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, 2013 and December 31, 2012 is as follows:

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

Note:

- (1) All of the Group's derivative financial instruments were classified as cash flow hedges that qualified for hedge accounting at June 30, 2013 and December 31, 2012. As a result, any gain or loss associated with changes to the fair value (net of tax) of these derivative financial instruments is recognized within other reserves within equity with the ineffective portion of any fair value gain or loss included within finance income/costs.

The Group has entered into five credit facilities that are hedged using interest rate swap contracts in order to hedge the risk of variations in the Group's cash flows as a result of floating interest rates on the Group's non-recourse project loans. 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. Refer to 'Business Review – Financial Results' on page 10 for further information on the finance income/costs recognized by the Group during the periods.

## **RISKS AND UNCERTAINTIES**

---

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

### **FINANCIAL RISKS**

#### ***DEBT AND EQUITY FINANCING***

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

#### ***CAPITAL REQUIREMENTS AND LIQUIDITY***

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

#### ***MARKET RISKS***

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

#### ***COST UNCERTAINTY***

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

### **NON-FINANCIAL RISKS**

#### ***LICENSES AND PERMITS***

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

#### ***GOVERNMENTAL REGULATION***

The renewable energy sector is subject to extensive government regulation. These regulations are subject to change based on the current and future economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the industries in which the Group operates could lead to delays in the construction or development of additional solar power projects and/or adversely impair its ability to acquire and develop economic projects, generate adequate internal returns from operating projects and to continue operating in current markets. Specifically, reductions in the FiT payable to the Group on its existing solar power projects in Italy as well as other legislative or regulatory changes could impact the profitability of the Group's future solar power projects. Refer to 'Business Review – Market Overview' on pages 5 and 6 for an overview of the renewable energy market.

## **RISKS AND UNCERTAINTIES (CONTINUED)**

---

### **NON-FINANCIAL RISKS (CONTINUED)**

#### **COMPETITION**

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

#### **PRICES AND MARKETS FOR ELECTRICITY**

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

#### **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 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: Etrion's plans for future growth and development activities, expectations relating to the Aguas Blancas project, including the expected signing of a PPA and the funding and construction of the solar project, the need for additional capital to fund the construction or acquisition of new projects and the expected sources of such capital. The above constitute forward-looking information, within the meaning of applicable Canadian securities legislation, which involves risks, uncertainties, assumptions 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 availability of suitable additional renewable energy projects; uncertainties with respect to the Company's ability to negotiate PPAs with industrial energy users; uncertainties and assumptions relating to the availability and costs of financing needed in the future; assumptions related to the applicability of the Italian FIT regime until December 31, 2016 and the new Italian energy law implemented during the second half of 2012; uncertainties with respect to certain information relating to solar electricity revenue that is subject to confirmation of both the applicable FIT to which the Company is entitled by the state-owned company, GSE, and the applicable spot market price by local utilities for electricity sales to the national grid; the impact of general economic conditions and world-wide industry conditions in the jurisdictions and industries in which the Company operates; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; stock market volatility; opportunities available to or pursued by the Company; and other factors, many of which are beyond the Company's control.

All such forward-looking information is based on certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors the Company believes are appropriate in the circumstances. The foregoing factors, assumptions and risks are not exhaustive and are further discussed in Etrion's most recent Annual Information Form and other public disclosure available on SEDAR at [www.sedar.com](http://www.sedar.com). Actual results, performance or achievements could differ materially from those expressed in, or implied by, such forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits will be derived therefrom. Investors should not place undue reliance on forward-looking information. Except as required by law, Etrion does not intend to update or revise any forward-looking information, whether as a result of new information, future events or otherwise. The information contained in this MD&A is expressly qualified by this cautionary statement.

## **ADDITIONAL INFORMATION**

---

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