

etrion

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

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March 11, 2013

Independent Auditor's Report

To the Shareholders of Etrion Corporation,

We have audited the accompanying consolidated financial statements of Etrion Corporation, which comprise the consolidated balance sheet as at December 31, 2012 and 2011 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Etrion Corporation as at December 31, 2012 and 2011 and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers SA

“Luc Schulthess”

Luc Schulthess

“Marion Grandjean”

Marion Grandjean

Enclosures:

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2012

Expressed in US\$'000

	Note	2012 \$'000	2011 \$'000
Revenue	6	55,662	51,910
Operating expenses	2(a)/7	(25,926)	(22,148)
Gross profit		29,736	29,762
General and administrative expenses	2(a)/8	(8,452)	(13,767)
Impairment	9	-	(9,672)
Other income	10	1,951	3,187
Operating profit		23,235	9,510
Finance income	11	964	1,805
Finance costs	11	(28,612)	(32,096)
Net finance costs		(27,648)	(30,291)
Loss before income tax		(4,413)	(20,781)
Income tax expense	12	(4,045)	(5,508)
Loss for the year		(8,458)	(26,289)
Other comprehensive loss:			
(Loss)/gain on currency translation	21	(1,011)	1,153
Loss on cash flow hedges (net of tax)	21	(12,794)	(13,323)
Actuarial gain/(loss) on post-employment benefits	26	252	(1,011)
Total other comprehensive loss		(13,553)	(13,181)
Total comprehensive loss for the year		(22,011)	(39,470)
Loss for the year attributable to:			
Owners of the parent company		(8,458)	(26,289)
Total comprehensive loss for the year attributable to:			
Owners of the parent company		(22,011)	(39,470)
Basic and diluted loss per share	13	\$(0.04)	\$(0.14)

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

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2012

Expressed in US\$'000

	Note	2012 \$'000	2011 \$'000
Assets			
Non-current assets			
Property, plant and equipment	14	352,208	364,109
Intangible assets	15	14,619	13,669
Available for sale investments	16	2,061	2,061
Deferred income tax assets	12	9,142	3,683
Trade and other receivables	17	7,136	24,622
Total non-current assets		385,166	408,144
Current assets			
Trade and other receivables	17	29,861	19,776
Cash and cash equivalents (including restricted cash)	18	37,750	39,656
Total current assets		67,611	59,432
Total assets		452,777	467,576
Equity			
Attributable to owners of the Company			
Share capital	19	33,270	23,293
Contributed surplus		10,430	15,998
Other reserves	21	(22,840)	(9,429)
Accumulated deficit		(35,506)	(27,300)
Total equity		(14,646)	2,562
Liabilities			
Non-current liabilities			
Borrowings	22	369,747	390,825
Derivative financial instruments	24	40,558	25,213
Deferred income tax liabilities	12	1,610	4,038
Provisions	25	5,600	5,620
Total non-current liabilities		417,515	425,696
Current liabilities			
Trade and other payables	27	6,990	12,791
Current tax liabilities	12	604	4,165
Borrowings	22	30,024	16,030
Derivative financial instruments	24	9,662	5,462
Provisions	25	2,628	870
Total current liabilities		49,908	39,318
Total liabilities		467,423	465,014
Total equity and liabilities		452,777	467,576

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

Approved by the Board of Directors:

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

"C. Ashley Heppenstall"
C. Ashley Heppenstall, Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2012

Expressed in US\$'000

	Note	Attributable to owners of the company				Total equity \$'000
		Share capital \$'000	Contributed surplus \$'000	Other reserves \$'000	Accumulated deficit \$'000	
Balance at January 1, 2011		16,741	15,295	2,741	-	34,777
Comprehensive loss:						
- Loss for the year		-	-	-	(26,289)	(26,289)
- Other comprehensive loss:						
Cash flow hedges (net of tax)	21	-	-	(13,323)	-	(13,323)
Currency translation	21	-	-	1,153	-	1,153
Actuarial loss on post-employment benefits	26	-	-	-	(1,011)	(1,011)
Total comprehensive loss		-	-	(12,170)	(27,300)	(39,470)
Transactions with owners in their capacity as owners:						
- Equity-based financing fee	19	5,596	-	-	-	5,596
- Stock options exercised	19	956	(396)	-	-	560
- Share-based payments	20	-	1,099	-	-	1,099
Balance at December 31, 2011		23,293	15,998	(9,429)	(27,300)	2,562
Comprehensive loss:						
- Loss for the year		-	-	-	(8,458)	(8,458)
- Other comprehensive loss:						
Cash flow hedges (net of tax)	21	-	-	(12,400)	-	(12,400)
Currency translation	21	-	-	(1,011)	-	(1,011)
Actuarial gain on post-employment benefits	26	-	-	-	252	252
Total comprehensive loss		-	-	(13,411)	(8,206)	(21,617)
Transactions with owners in their capacity as owners:						
- Share issuance	19	9,977	(6,065)	-	-	3,912
- Share-based payments	20	-	497	-	-	497
Balance at December 31, 2012		33,270	10,430	(22,840)	(35,506)	(14,646)

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

CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE YEAR ENDED DECEMBER 31, 2012

Expressed in US\$'000

	Note	2012 \$'000	2011 \$'000
Cash flow from operating activities:			
Loss for the year		(8,458)	(26,289)
Adjustments for:			
Depreciation and amortization	7/8	19,896	18,992
Impairment	9	-	9,672
Current income tax expense	12	6,504	7,257
Deferred income tax recovery	12	(2,459)	(1,749)
Share-based payment expense	8/20	495	1,105
Interest expense	11	19,203	18,707
Interest expense relating to interest rate swap contracts	11	7,267	6,216
Amortization of transaction costs	11	840	887
Equity-based financing fee	11	-	3,246
Foreign exchange (gain)/loss	11	(51)	391
Fair value changes associated with derivative financial instruments	11	225	239
Other income (exchange right)	10/29	(1,375)	-
Interest income		(231)	(262)
Decrease/(increase) in trade and other receivables		7,687	(13,010)
Increase/(decrease) in trade and other payables		988	(22,621)
Income tax paid		(9,961)	(4,934)
Total cash flow from/(used in) operating activities		40,570	(2,153)
Cash flow from investing activities:			
Purchases of property, plant and equipment		(676)	(52,665)
Purchases of intangible assets		(1,358)	(750)
Total cash flow used in investing activities		(2,034)	(53,415)
Cash flow from financing activities:			
Interest paid	22	(19,886)	(18,493)
Interest paid relating to interest rate swap contracts		(6,815)	(6,934)
Interest income		231	263
Repayment of borrowings	22	(16,972)	(131,307)
Proceeds from borrowings	22	2,242	207,254
Proceeds from the issuance of shares	19/20	-	560
Total cash flow (used in)/from financing activities		(41,200)	51,343
Net decrease in cash and cash equivalents		(2,664)	(4,225)
Effect of foreign exchange rate differences		758	(1,143)
Cash and cash equivalents (including restricted cash) at the beginning of the year		39,656	45,024
Cash and cash equivalents (including restricted cash) at the end of the year		37,750	39,656

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2012

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 V6Z 3L2, Canada. The Company is listed on the Toronto Stock Exchange in Canada and the NASDAQ OMX Stockholm exchange in Sweden under the same ticker symbol, “ETX”.

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

These consolidated financial statements are presented in United States (“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 consolidated financial statements has been presented in Euros (“€”) and Canadian dollars (“CAD\$”).

The Company’s Board of Directors approved these consolidated financial statements authorized for issue on March 11, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and the IFRS Interpretations Committee that are effective or available for early adoption for accounting periods beginning on January 1, 2012. The consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets and financial liabilities (i.e., available for sale investments and derivative financial instruments that are recognized at fair value through profit or loss).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Company’s management to exercise judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where the assumptions and estimates are significant to the consolidated financial statements are disclosed in [Note 3](#).

During 2012, the Group reclassified certain items (i.e., other taxes directly related to the Group’s operating solar power projects and internally generated costs directly related to operations) from general and administrative expenses to operating expenses. As a result, operating expenses for 2011, as previously reported of \$20.8 million increased by \$1.3 million ([Note 7](#)) with a corresponding reduction to the previously reported general and administrative expenses for 2011 of \$15.1 million ([Note 8](#)). This reclassification was made to improve the presentation of the Company’s consolidated financial statements.

(b) GOING CONCERN

These Company’s consolidated financial statements for the year ended December 31, 2012, have been prepared on a going concern basis, which assumes that the Group will be able to realize its assets and discharge its liabilities in the normal course of business as they become due in the foreseeable future.

At December 31, 2012, the Group had cash and cash equivalents of \$37.7 million (2011: \$39.7 million) and positive working capital (i.e., current assets less current liabilities) of \$17.7 million (2011: \$20.1 million). During 2012, the Group recognized a net loss of \$8.5 million (2011: \$26.3 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 consolidated 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, vendor financing or non-recourse project loans). The Group cannot be certain that financing will be available when needed, and, as a result, the Group may need to delay discretionary expenditures.

These consolidated financial statements for the year ended December 31, 2012, do not include the adjustments that would result if the Group was unable to continue as a going concern.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2012

Expressed in US\$'000 unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New standards and amendments adopted by the Group

There are no IFRSs or International Financial Reporting Interpretations Committee ("IFRIC") interpretations that have been issued effective for financial years beginning on or after January 1, 2012 that would have a material impact on the Company's consolidated financial statements.

New standards and amendments not yet adopted by the Group

The following new standards and amendments, applicable to the Group, issued but not effective for the financial year beginning January 1, 2012 and not early adopted are as follows:

- **Annual Improvements 2011:** The annual improvements made in 2011, which are effective for financial years beginning on or after January 1, 2013, will not have a significant impact on the Company's consolidated annual financial statements.
- **Amendment to IAS 1, Financial Statement Presentation:** This amendment requires items presented in other comprehensive income to be grouped on the basis of whether they can potentially be subsequently reclassified to profit or loss (i.e., reclassification adjustments).
- **IAS 19 (revised), Employee Benefits ("IAS 19"):** The revised standard clarifies what is included in annual costs for defined benefit plans, requires actuarial gains and losses to be recognized immediately in comprehensive income and requires additional disclosures regarding the characteristics of the entity's benefit plans, amounts recognized in the financial statements, impacts on future cash flows and risks arising from the defined benefit plan. The Group is yet to assess the full impact of IAS 19 and intends to adopt IAS 19 no later than the accounting period beginning on or after January 1, 2013.
- **IAS 32 (amendment), Financial Instruments: Presentation ("IAS 32"):** The amendment to the standard clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The Group is yet to assess the full impact of the amendments made to IAS 32 and intends to adopt such amendments no later than the accounting period beginning on or after January 1, 2014.
- **IFRS 9, Financial Instruments ("IFRS 9"):** This standard addresses the classification, measurement and recognition of financial assets and liabilities, replacing parts of IAS 39, *Financial Instruments: Recognition and Measurement ("IAS 39")*. The Group is yet to assess the full impact of IFRS 9 and intends to adopt IFRS 9 no later than the accounting period beginning on or after January 1, 2015.
- **IFRS 10, Consolidated Financial Statements ("IFRS 10"):** This standard builds on the existing principals by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The Group is yet to assess the full impact of IFRS 10 and intends to adopt IFRS 10 no later than the accounting period beginning on or after January 1, 2013.
- **IFRS 13, Fair Value Measurement ("IFRS 13"):** This standard aims to improve consistency and reduce complexity by providing precise definitions of fair value, a single source of fair value measurement and disclosure requirements for use across all IFRS. IFRS 13 does not extend the use of fair value accounting, but provides guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The Group is yet to assess the full impact of IFRS 13 and intends to adopt IFRS 13 no later than the accounting period beginning on or after January 1, 2013.

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

(d) BASIS OF CONSOLIDATION

Subsidiaries

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2012

Expressed in US\$'000 unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) BASIS OF CONSOLIDATION (CONTINUED)

Subsidiaries (continued)

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

The Group applies the acquisition method of accounting for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of the non-controlling interests over the net identifiable assets acquired and liabilities assumed. If the consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as a bargain purchase gain.

The Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportional share of the acquiree's net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Inter-company transactions, balances and unrealized gains or losses on transactions between Group companies are eliminated. The accounting policies used by subsidiaries, where different from that of the Group, are amended where necessary to ensure consistency with the accounting policies adopted by the Group.

When acquiring project companies, the Company assesses whether the project company represents a business as defined by *IFRS 3, Business Combinations* ("IFRS 3"), or a specific asset or group of assets such as land and/or licenses. Where the project company meets the definition of a business, the acquisition method of accounting is applied. Where the project company does not meet the definition of a business, the transaction is treated as an asset acquisition. Key factors in determining whether the definition of a business is met include an assessment of inputs, processes and outputs and the stage of the project development plan at the acquisition date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about the facts and circumstances that existed as of the acquisition date, and is subject to a maximum period of one year ("measurement period").

Subsequent changes to the fair values of the assets acquired and liabilities assumed are adjusted against the cost of the acquisition where the changes qualify as measurement period adjustments. All other subsequent changes to the fair values of the assets acquired and liabilities assumed are accounted for in accordance with relevant IFRS. Subsequent changes to the fair value of contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional values for the items for which the fair value assessment is incomplete. These provisional values are then adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the values recognized at that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2012

Expressed in US\$'000 unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) BASIS OF CONSOLIDATION (CONTINUED)

Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the Group's share of the carrying value of the net assets is recorded within equity. Gains or losses recognized on the disposal of non-controlling interests are also recorded in equity.

(e) SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Board of Directors is the chief operating decision maker responsible for making strategic decisions, allocating resources and assessing the performance of the operating segments.

(f) FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

Items included in the financial statements of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The functional currency of the Company's subsidiaries is primarily the Euro.

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

Foreign exchange gains and losses are presented within finance income or costs.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuations where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies translated at the year-end exchange rate are recognized in the profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges.

Group companies

The results and financial position of all Group entities that have a functional currency different from the presentation currency of the Group (none of which has the currency of a hyper-inflationary economy), are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet item are translated at the closing exchange rates prevailing at the balance sheet date;
- income and expenses for each statement of comprehensive income item are translated at the exchange rate at the transaction date (or the average exchange rate if this represents a reasonable approximation); and
- all resulting exchange differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate, with any exchange differences recognized within other comprehensive income.

Exchange differences arising from the translation of monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), are recognized initially in other comprehensive income. On the disposal or partial disposal of the net investment (reduction in ownership percentage), the amounts recognized in other comprehensive income are reclassified from equity to profit or loss. Management does not consider the repayment of quasi-equity loans designated as 'net investment' to qualify as a disposal and therefore no reclassification of exchange differences is made from equity to profit or loss when such repayment occurs. Where, as a result of a change in circumstances, a previously designated 'net investment' loan is settled (monetary items receivable from or payable to a foreign operation are actually repaid), the loan is de-designated and then exchange differences arising from the translation are accounted for in profit or loss from that point forward.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2012

Expressed in US\$'000 unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) FOREIGN CURRENCY TRANSLATION (CONTINUED)

Group companies (continued)

In preparing the consolidated financial statements, the individual financial statements of the Company's subsidiaries are translated into the functional currency of the Company, the Euro. Once the financial statements have been consolidated, they are then translated into the presentation currency, the US dollar.

Exchange rates for the relevant currencies of the Group with respect to the US dollar are as follows:

	CHF ⁽¹⁾ /	€/	Bs ⁽¹⁾ /	CAD\$/
	\$	\$	\$	\$
Closing rate at December 31, 2012	1.09	1.32	0.19	0.99
Closing rate at December 31, 2011	1.06	1.29	0.19	0.98
Closing rate at December 31, 2010	1.03	1.34	0.19	1.01
Twelve month average rate December 31, 2012	1.07	1.28	0.19	0.99
Twelve month average rate December 31, 2011	1.13	1.39	0.19	1.01

Note:

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

(g) PROPERTY, PLANT AND EQUIPMENT

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Costs include expenditure directly attributable to the acquisition of the asset and, for self-constructed assets the costs include material costs, direct labor and any other costs directly attributable to bringing the asset into its working condition for its intended use. The cost for dismantling and removing items of property, plant and equipment and site restoration are also included as part of the cost for the relevant asset.

Borrowing costs directly attributable to the acquisition or construction of qualifying assets are capitalized. Capitalization of borrowing costs commences when the activities to prepare the asset for its intended use are undertaken and continue to be capitalized until the date in which development of the relevant asset is complete (i.e., connection to the electricity grid).

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

Subsequent costs are included in the carrying amount of an item of property, plant and equipment or as a separate asset, as appropriate, only if it is probable that the future economic benefits embodied within the item will flow to the Group and its cost can be measured reliably. The carrying amount of any replaced items of property, plant and equipment are derecognized and the cost of maintenance and repairs are charged to the profit or loss during the financial period in which they are incurred.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the profit or loss within other income and expenses.

Depreciation

Depreciation is recognized within operating expenses for operating solar power projects and general and administrative expenses for all other items of property, plant and equipment (i.e., corporate equipment and furniture), in order to expense the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effect of any changes in estimates accounted for on a prospective basis. Land is not depreciated.

The estimated useful lives are as follows:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2012

Expressed in US\$'000 unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) INTANGIBLE ASSETS

Recognition and measurement

Intangible assets are measured at cost less accumulated amortization and accumulated impairment losses.

Costs include expenditure directly attributable to the acquisition of the asset and, for self-constructed assets the costs include material costs, direct labor and any other costs directly attributable to bringing the asset into its working condition for its intended use.

Licenses and permits

Project permits and licenses acquired through business combinations or through the acquisition of a project company accounted for as an asset acquisition are recognized at their fair values at the date of acquisition (**Note 2(d)**). Project permits and licenses have a finite useful life and are carried at cost less accumulated amortization.

Amortization is calculated using the straight-line method to allocate the cost of the permits and licenses over their estimated useful lives, which are generally determined according to the term of the applicable energy supply contract signed with the local grid operators for the related solar power project. The estimated useful life of project permits and licenses associated with the Group's solar power projects is 20 years. The amortization expense recognized in relation to intangible assets is included within operating expenses.

The amortization expense of permits and licenses related to the construction of solar power projects is capitalized as assets under construction within property, plant and equipment during the construction phase.

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred including the fair value of non-controlling interests in the acquiree at the date of acquisition less the fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill is not amortized and is tested for impairment at least annually. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash generating units ("CGUs"), expected to benefit from the synergies of the combination (**Note 2(i)**). CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount, the impairment is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets on a pro-rata basis. An impairment loss recognized for goodwill is not subsequently reversed.

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

(i) IMPAIRMENT OF TANGIBLE ASSETS AND INTANGIBLE ASSETS (EXCLUDING GOODWILL)

At the end of each reporting period, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any indication of impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. CGUs are identified for each operating solar power project.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment, at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount of the asset is the higher of the fair value less costs to sell, or value in use calculations. In assessing value in use calculations, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount and an impairment loss is recognized immediately in the profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2012

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) IMPAIRMENT OF TANGIBLE ASSETS AND INTANGIBLE ASSETS (EXCLUDING GOODWILL) (CONTINUED)

When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in the profit or loss.

(j) FINANCIAL ASSETS

Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss; loans and receivables; available-for-sale; and held-to-maturity. The classification depends on the purpose for which the financial assets were acquired and the Company's management determines the classification of its financial assets at initial recognition as follows:

- **Financial assets at fair value through profit or loss:** This category includes financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as cash flow hedges. Assets in this category are classified as current assets if expected to be settled within the next twelve months or as non-current assets if expected to be settled after twelve months.
- **Loans and receivables:** This category includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets in this category are classified as current assets, except when the maturity is greater than twelve months from the reporting date, which are classified as non-current assets. The Group's loans and receivables are comprised of trade and other receivables and cash and cash equivalents.
- **Available-for-sale financial assets:** This category includes non-derivative financial assets that are either designated in this category or those that are not classified in any of the other categories. Assets in this category are classified as non-current assets unless the investment matures or the Company's management intends to dispose of it within twelve months from the reporting date, which are classified as non-current assets.
- **Held-to-maturity investments:** This category includes financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intent on and ability to hold to maturity.

Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade-date (i.e., the date on which the Group commits to purchase or sell the asset). Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed within finance income or costs. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value, except where the fair value cannot be measured reliably in which case the assets are carried at cost less impairment. Loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included within finance income or costs in the period in which they arise.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses are only recognized if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (i.e., a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) FINANCIAL ASSETS (CONTINUED)

Impairment of financial assets (continued)

The Group uses the following criteria to determine whether there is objective evidence for the recognition of an impairment loss associated with financial assets:

- significant financial difficulty of the obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; and
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets.

Assets carried at amortized cost

The Group first assesses whether objective evidence of impairment exists at the end of each reporting period and in the event such evidence exists, the amount of impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the impairment loss is recognized in the profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the fair value of the asset carried at amortized cost increases and the increase can be objectively related to an event occurring after the impairment loss was initially recognized (such as an improvement in the debtor's credit rating), the impairment loss is reversed in the profit or loss.

Assets classified as available for sale

The Group uses the same criteria to assess whether there is objective evidence that a financial asset classified as available for sale is impaired, at the end of each reporting period, as outlined above for assets carried at amortized cost. However, in the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the asset is impaired. If any such evidence exists, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized, is removed from equity and recognized in the profit or loss in the period it occurs. Impairment losses relating to equity instruments recognized in the profit or loss are not subsequently reversed. However, if, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was initially recognized, the impairment loss is reversed.

Offsetting financial instruments

Financial assets and liabilities are offset and shown net in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

(k) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (i.e., cash flow hedge); or
- hedges that don't qualify for hedge accounting (i.e., speculative hedges). No derivative financial instruments are used for speculative purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2012

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (CONTINUED)

The Group documents at the inception of the transaction, the relationship between hedging instruments and the hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in [Note 24](#). Movements on the hedging reserve in other comprehensive income are shown in [Note 21](#). The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than twelve months and as a current asset or liability when the remaining maturity of the hedged item is less than twelve months. Trading derivatives are classified as a current assets or liabilities.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately within finance income or costs. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss finance income or costs.

(l) TRADE RECEIVABLES

Trade receivables are amounts due for solar energy produced by the Group and sold to the electricity grid operator in accordance with the electricity sale contracts. If collection is expected in one year or less, they are classified as current assets. If not, they are recognized as non-current assets. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method, less any provision for impairment.

(m) CASH AND CASH EQUIVALENTS (INCLUDING RESTRICTED CASH)

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities.

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

(n) SHARE CAPITAL

Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction, net of tax, from the proceeds.

(o) TRADE PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after balance sheet date. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2012

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) BORROWINGS

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost using the effective interest rate method, with any difference between the proceeds (net of transaction costs) and the redemption value recognized in the profit or loss within finance costs. Since the Group's non-recourse project loans are floating rate instruments the application of the effective interest rate method is not necessary as re-estimating the future interest payments normally has no significant impact on the carrying amount of the financial liability. Transaction costs incurred in acquiring a floating rate instrument are amortized using the straight-line amortization method.

Fees paid on the establishment of loan facilities are recognized as transaction costs to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. If there is no evidence to indicate that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

General and specific borrowing costs directly attributable to the acquisition or construction of qualifying assets are capitalized within property plant and equipment. Capitalization of borrowing costs commences when the activities to prepare the asset for its intended use are undertaken and continue to be capitalized until the date in which development of the relevant asset is complete (i.e., connection to the electricity grid). All other borrowing costs are recognized in the profit or loss in the period in which they are incurred.

(q) CURRENT AND DEFERRED INCOME TAX

The tax expense for the period comprises of current and deferred income tax. Tax is recognized in the profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group operates and generates taxable income. The Company's management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements. However, deferred income tax liabilities are not recognized if they arise from the initial recognition of goodwill and deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(r) PROVISIONS

Provisions are recognized when the Group has a present obligation (i.e., legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate of the obligation can be made.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2012

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) PROVISIONS (CONTINUED)

The Group recognizes a provision for the future costs expected to be incurred in relation to the decommissioning, dismantling and site restoration associated with its solar power projects in Italy with a corresponding increase to the relevant asset. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the project, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. Period charges for changes in the net present value of the provision arising from discounting (i.e., unwinding the discount) are included within finance costs.

(s) REVENUE RECOGNITION

Revenue is recognized upon delivery of electricity produced to the local operator of the electricity grid, which is a state-owned utility company. Delivery is deemed complete when all the risks and rewards associated with ownership have been transferred to the buyer as contractually agreed, compensation has been contractually established and collection of the resulting receivable is probable. Revenues from the sale of electricity are recognized at the time the electricity is supplied on the basis of periodic meter readings. Revenues are recognized net of value added tax ("VAT") and rebates. Revenues are measured at the fair value of the consideration received or receivable, which is calculated, based on the price of electricity established in the contract.

(t) INTEREST INCOME

Interest income is recognized using the effective interest method. When a loan or receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding of the discount as interest income. Interest income on impaired loans and receivables are recognized using the original effective interest rate.

(u) SHARE-BASED PAYMENT

The Company operates an equity-settled, share-based compensation plan, under which the entity receives services from employees, consultants, directors and officers as consideration for equity instruments (i.e., options) of the Company. The total amount to be expensed, within general and administrative expenses, is determined by reference to the fair value of the options granted.

The fair value of share-based payments is determined using the Black-Scholes option-pricing model. When a stock option is exercised, the Company recognizes an increase in its share capital equivalent to the consideration paid by the option holder and the amount previously recognized in equity within contributed surplus. The fair value of any stock options granted to employees, consultants, directors and officers of the Group is recorded as an expense over the vesting period of the options granted, which is the period over which all of the specified vesting conditions are to be satisfied, with a corresponding increase in equity within contributed surplus.

(v) EMPLOYEE BENEFITS

Pension obligations

The Group's Swiss subsidiary has a defined benefit pension plan that is managed through a private fund. Independent actuaries determine the cost of the defined benefit plan on an annual basis and the Swiss subsidiary pays the annual insurance premium. The fund provides benefits coverage to the employees in the event of retirement, death or disability. The Group's Swiss subsidiary and its employees jointly finance retirement and risk benefit contributions. As per the agreement, the Swiss subsidiary contributes between 60% and 67% of the monthly pension costs, and the remaining balance is deducted from the employee's pay slip.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal; or (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2012

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3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

The Company's management believes the following critical accounting policies affect the more significant judgments and estimates used in the preparation of the consolidated financial statements.

(a) IMPAIRMENT OF GOODWILL, PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The Group assesses goodwill for impairment on an annual basis and property, plant and equipment and intangible assets when indicators of impairment exist. Determining whether goodwill, property, plant and equipment and intangible assets are impaired requires the Company's management to estimate the recoverable amount of the CGUs (to which goodwill is allocated) using value-in-use calculations. The value-in-use calculations require the Company's management to estimate the future cash flows expected to arise from the CGUs and to select a suitable discount rate in order to calculate the net present value. The value-in-use calculations are based on the forecasted earnings before interest, tax, depreciation and amortization ("EBITDA") over the expected life (i.e., up to 20 years, representing the term of the electricity sale agreements) derived from the business models developed by the Company's management to value the projects. The assumptions used are consistent with external sources of information and reflect past experience. These business models include various assumptions such as future market prices for solar energy, the fixed rate of inflation to estimate future operating costs and operating variables such as irradiation, degradation and transfer losses estimated by the Group's internal engineers based on historical atmospheric conditions in the areas where the projects are located. For the purposes of the Group's impairment assessment performed at December 31, 2012, the discount rate used was 7.7% (2011: 8.1%), representing the Group's pre-tax weighted average cost of capital, and no growth rate was applied (as the Group's operating solar power projects are operating at full capacity). A 2% increase to the Group's discount rate (to 9.7%) would have resulted in an impairment loss of \$8.1 million being recognized in 2012. The value-in-use calculations used to value the Group's solar power projects are complex and include a wide number of operating and financial variables and assumptions that are subject to change as economic and market conditions vary. At December 31, 2012, no impairment was provided in relation to the Group's previously recognized goodwill, property, plant and equipment and intangible assets. [Note 14](#) and [Note 15](#)

(b) ACQUISITIONS

The acquisition of subsidiaries is accounted for using the acquisition method of accounting in accordance with IFRS 3, which requires measuring the assets acquired and liabilities assumed at their fair values at the date of acquisition. The Company's management estimates the fair value of the assets acquired and liabilities assumed using business models developed by the Company's management used to value the solar power projects as outlined in [Note 3\(a\)](#) which include a wide number of operating and financial variables and assumptions that are subject to change as economic and market conditions vary. These changes could affect the fair value of the assets acquired and liabilities assumed and the amount of goodwill or negative goodwill recognized in the financial statements. The Group did not acquire any subsidiaries during 2012. However, during the year ended December 31, 2011, the Group adjusted the fair values assigned to the assets and liabilities on the acquisitions that occurred in 2010, resulting in a reduction of \$0.4 million to property, plant and equipment, \$0.1 million to goodwill included within intangible assets and \$0.1 million to deferred income tax liabilities. [Note 12](#), [Note 14](#) and [Note 15](#)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2012

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3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

(c) FAIR VALUE OF FINANCIAL AND DERIVATIVE FINANCIAL INSTRUMENTS

In determining the fair value of the Group's financial instruments, the Company's management uses judgement to select a variety of methods and verifies assumptions that are mainly based on market conditions existing at the balance sheet date. Where possible, the Company's management also obtains fair value measurements from third parties. For financial instruments carried at amortized cost, with a stated maturity, for which a quoted market price is not available, the estimated fair value is based on the expected future cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of floating rate instruments normally approximates their carrying value. At December 31, 2012, the Group recognized financial liabilities of \$50.2 million (2011: \$30.7 million) associated with its derivative financial instruments (Note 24). Refer also to Note 4(c) for a summary of the valuation techniques used by the Group.

(d) DEFERRED INCOME TAX ASSETS

The Group accounts for differences that arise between the carrying amount of assets and liabilities and their tax bases in accordance with IAS 12, *Income Taxes*, which requires deferred income tax assets only to be recognized to the extent that is probable that future taxable profits will be available against which the temporary differences can be utilized. The Company's management estimates future taxable profits based on the business models used to value the solar power projects as described in the Note 3(a). Any change to the estimates and assumptions used for the key operational and financial variables used within the business models could affect the amount of deferred income tax assets recognized by the Group. At December 31, 2012, the Group recognized \$7.5 million (2011: \$3.7 million) of deferred income tax assets. Note 12

4. FINANCIAL RISK MANAGEMENT

(a) CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing returns to stakeholders by increasing its operating capacity and positive cash flow generating platform with new projects. The capital structure of the Group consists of net debt (i.e., current and non-current borrowings less cash and cash equivalents) and equity (i.e., issued share capital, reserves and accumulated deficit).

The Group's objectives when managing the capital structure are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain flexibility and liquidity for investment opportunities in the renewable energy segment. The Company's Board of Directors reviews the capital structure of the Group throughout the year and as part of this review, considers the cost of capital and the risks associated with each class of capital. This review specifically focuses on the debt to equity ratio and working capital requirements at the corporate level. These objectives are primarily met through cash management and continuous review of attractive acquisition and development opportunities. In order to maintain or maximize the capital structure of the Group at the corporate level, the Group may raise additional funds through equity financing, obtain long-term debt or project-based financing or sell assets in order to manage debt levels or pursue additional opportunities within the renewable energy segment.

The Group's debt to equity ratio is as follows:

	2012 \$'000	2011 \$'000
Borrowings ⁽¹⁾ Note 22	399,771	406,855
Non-recourse project loans ⁽²⁾ Note 22	(319,704)	(328,463)
Net borrowings	80,067	78,392
Unrestricted cash and cash equivalents Note 18	(6,926)	(10,004)
Net debt	73,141	68,388
Equity ⁽³⁾	(14,646)	2,562
Fair value losses associated with derivative financial instruments ⁽⁴⁾ Note 21	22,683	10,283
Adjusted equity	8,037	12,845
Net debt to equity ratio	9.1	5.3

Notes:

- (1) Borrowings include non-current and current borrowings as shown in the consolidated balance sheet.
- (2) Non-recourse project loans relate to the facilities obtained for the construction of the Group's solar power projects.
- (3) Equity includes all capital and reserves of the Group as shown in the consolidated balance sheet.
- (4) Accumulated fair value losses accounted for within equity associated with the Group's interest rate swap contracts that qualify for hedge accounting are excluded as these fair value losses 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). Note 21

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2012

Expressed in US\$'000 unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) CAPITAL RISK MANAGEMENT (CONTINUED)

An increase to the Group's debt to equity ratio from 5.3 at December 31, 2011 to 9.1 at December 31, 2012, was a due to an increase of \$4.8 million to the Group's net debt at December 31, 2012 (a result of a \$1.7 million increase to the Group's corporate borrowings, primarily a result of foreign exchange movements (i.e., strengthening of the Euro against the US dollar at December 31, 2012) and a reduction to the Group's unrestricted cash balance of \$3.1 million) and reduction of \$4.8 million to the Group's adjusted equity (due to an increase to equity of \$4.4 million, primarily associated with the conversion of Mr. Northland's previously held exchange right for the 10% equity interest in the Company's subsidiary, SRH, offset by the net loss of \$8.5 million, loss on translation adjustment of \$1 million and actuarial losses on post-employment benefits of \$0.3 million recognized during the year).

(b) FINANCIAL RISK MANAGEMENT OBJECTIVES

The Group is exposed to a variety of financial risks relating to its operations in Italy. These risks include market risk (interest rate risk, foreign currency risk, and price risk), credit risk and liquidity risk. The Group's overall risk management procedures focus on the unpredictability of financial markets, specifically changes in foreign currency exchange rates and interest rates, and seeks to minimize potential adverse effects on the Group's financial performance. The Group seeks to minimize the effects of these risks by using derivative financial instruments to hedge interest risk exposures.

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

Market risk

Interest rate risk

The Group is highly leveraged through financing at the project level, for the construction of its solar power projects, and at the corporate level. Further, the Group enters into non-recourse project loans, issued at variable interest rates with financial institutions that provide financing for up to 85% of the total project costs. In addition, in April 2011, the Group issued \$79.2 million (€60 million) of corporate bonds in the Norwegian bond market with a fixed rate of interest.

The Group is exposed to interest rate risks associated with its non-recourse project loans as these are floating rate instruments. The Group is not exposed to interest rate risks associated with the corporate bond as it is a fixed rate instrument.

The Group manages its cash flow and interest rate risks by using floating-to-fixed interest rate swap contracts, primarily entered into with the same financial institutions providing the underlying debt facility. These interest rate swap contracts have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swap contracts, the Group agrees to exchange at specified intervals (i.e., semi-annually), the difference between the fixed contract rates and floating interest rates calculated by reference to the agreed notional amounts. The fair value of the interest rate swap contracts at the end of each reporting period is determined by discounting the future cash flows using forward interest rate curves at the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) FINANCIAL RISK MANAGEMENT OBJECTIVES (CONTINUED)

Market risk (continued)

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

	Carrying amount	+10 bps shift in interest rate curve		-10 bps shift in interest rate curve	
		Impact on profit/(loss)	Impact on other comprehensive income	Impact on profit/(loss)	Impact on other comprehensive income
At December 31, 2012					
Societe Generale and Dexia	37,214	(2)	-	2	-
BIS, Societe Generale and WestLB	140,370	(11)	-	11	-
Barclays	50,736	(5)	-	5	-
Centrobanca	16,031	(3)	-	3	-
Natixis and WestLB	75,353	(11)	-	11	-
Total impact	319,704	(32)	-	32	-
Derivative financial instruments	50,220	-	2,413	-	(2,439)
Total net impact	369,924	(32)	2,413	32	(2,439)
At December 31, 2011					
Societe Generale and Dexia	41,216	(5)	-	5	-
BIS, Societe Generale and WestLB	142,638	(24)	-	24	-
Barclays	52,402	(12)	-	12	-
Centrobanca	16,374	(4)	-	4	-
Natixis and WestLB	75,833	(14)	-	14	-
Total impact	328,463	(59)	-	59	-
Derivative financial instruments	30,675	-	2,226	-	(2,251)
Total net impact	359,138	(59)	2,226	59	(2,251)

Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro, Swiss franc, US dollar and Venezuelan bolivar. The Group's foreign currency exposure is due primarily to intercompany borrowings made in Euros and US dollars to subsidiaries that have a different functional currency. The Group does not undertake hedging arrangements to mitigate the foreign currency exposure on its net investments in foreign operations or on income in foreign operations in order to hedge the risk of foreign currency variations. However, the Group considers foreign currency risk limited due to the fact that monetary assets and liabilities held by the Group's subsidiaries are primarily held in the individual subsidiaries' functional currency. Further, monetary assets and liabilities held in currencies other than the functional currencies of the individual subsidiaries are considered insignificant.

Price risk

The Group is not exposed to significant commodity price risk as the majority of revenues generated by the Group's solar power projects are secured by long-term contracts based on a FiT (Note 6). However, the Group is exposed to price risks associated with the electricity sold at the spot rate and the value attributed to its available-for-sale investments. As the available-for-sale investments relate to unquoted equity investments, the Group has carried these investments at their expected recoverable amount (Note 16).

Credit risk

Credit risk mainly arises from cash and cash equivalents and derivative financial instruments, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only high and medium rated institutions operating in local markets are accepted (see table below). The sale of electricity is made to the state-owned utility companies, and therefore the Company's management considers the credit risk associated with trade receivables to be insignificant.

The carrying amount of financial assets net of impairment represents the Group's maximum exposure to credit risk (Note 16). The Group does not have policies in place to assign internal ratings or to set credit limits to its counterparties.

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4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) FINANCIAL RISK MANAGEMENT OBJECTIVES (CONTINUED)

Credit risk (continued)

The credit risk on liquid funds (i.e., cash and cash equivalents) and derivative financial instruments (i.e., interest rate swap contracts) is considered to be limited due to the fact that counterparties are financial institutions with high and medium credit ratings assigned by international credit agencies.

The credit quality of financial assets that are neither past due nor impaired at December 31, 2012 can be assessed by reference to external credit ratings, if available, as follows:

	2012 \$'000	2011 \$'000
Cash and cash equivalents (including restricted cash):		
AA-	1,849	254
A+	6,011	5,697
A	2,656	3,889
A-	595	-
BBB+	12,112	16,382
BBB	11,657	12,202
BBB-	2,305	1,039
Other	565	193
Total cash and cash equivalents (including restricted cash)	37,750	39,656

Liquidity risk

The Company's management performs cash flow forecasting in order to ensure that sufficient cash is available to meet operational needs at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities and by matching maturity profiles of financial assets and liabilities. The Company's management monitors the Group's liquidity position taking into consideration the Group's debt financing plans and covenant compliance.

The following table analyses the Group's financial liabilities based on the remaining period outstanding at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curve existing at the balance sheet date.

	Carrying amount \$'000	Contractual Amount \$'000	Less than 1 year \$'000	1 to 5 years \$'000	After 5 years \$'000	Total \$'000
At December 31, 2012						
Borrowings	399,771	534,313	31,954	206,182	296,177	534,313
Interest rate swap contracts	50,220	51,719	9,677	29,751	12,291	51,719
Trade and other payables	6,990	6,990	6,990	-	-	6,990
Total financial liabilities	456,981	593,022	48,621	235,933	308,468	593,022
At December 31, 2011						
Borrowings	406,855	588,058	35,223	216,917	335,918	588,058
Interest rate swap contracts	30,675	46,631	8,834	29,324	8,473	46,631
Trade and other payables	12,791	12,791	12,791	-	-	12,791
Total financial liabilities	450,321	647,480	56,848	246,241	344,391	647,480

(c) FAIR VALUE ESTIMATION

The Group's financial instruments carried at fair value are classified within the following measurement hierarchy depending on the valuation technique used to estimate their fair values:

- **Level 1:** includes fair value measurements derived from quoted prices (i.e., unadjusted) in active markets for identical assets or liabilities. The fair values of financial instruments traded in the active market are based on quoted market prices at the balance sheet date. At December 31, 2012 and 2011, the Group had no financial instruments classified as Level 1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) FAIR VALUE ESTIMATION (CONTINUED)

- **Level 2:** includes fair value measurements derived from inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices). The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques that maximize the use of observable market data, where it is available, and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. At December 31, 2012 and 2011, the Group's interest rate swap contracts were classified as Level 2 and the fair value of such instruments was 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 (Note 24).
- **Level 3:** includes fair value measurements derived from valuation techniques that include inputs for assets or liabilities that are not based on observable market data (i.e., unobservable inputs). At December 31, 2012 and 2011, the Group had no financial instruments classified as Level 3.

The Group's assets and liabilities that are measured at fair value are as follows:

	2012 \$'000	2011 \$'000
Financial liabilities		
Level 2:		
- Derivatives used for hedging	50,220	30,675
Total financial liabilities	50,220	30,675

At December 31, 2012 and 2011, the Group had no financial instruments classified as Level 1 and 3.

5. SEGMENT REPORTING

The Company's management has determined the operating segments based on reports reviewed by the Board of Directors used to make strategic decisions. The Board of Directors considers reportable segments from a products and services perspective and measures performance based on EBITDA. 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 on corporate expenses as the Company 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"). At December 31, 2012 and 2011, all of the Group's operating solar power projects were located in Italy.

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

	2012			2011		
	Renewable energy \$'000	Corporate and other \$'000	Total \$'000	Renewable energy \$'000	Corporate and other \$'000	Total \$'000
Revenue	55,662	-	55,662	51,910	-	51,910
Operating expenses ⁽¹⁾⁽²⁾	(6,320)	-	(6,320)	(3,490)	-	(3,490)
General and administrative expenses ⁽¹⁾⁽²⁾	(1,583)	(6,579)	(8,162)	(2,273)	(11,160)	(13,433)
Impairment	-	-	-	(1,315)	(8,357)	(9,672)
Other income	403	1,548	1,951	3,047	140	3,187
EBITDA	48,162	(5,031)	43,131	47,879	(19,377)	28,502
Depreciation and amortization	(19,606)	(290)	(19,896)	(18,658)	(334)	(18,992)
Finance income	900	64	964	1,745	60	1,805
Finance costs	(21,445)	(7,167)	(28,612)	(22,575)	(9,521)	(32,096)
Income/(loss) before income tax	8,011	(12,424)	(4,413)	8,391	(29,172)	(20,781)
Income tax expense	(3,899)	(146)	(4,045)	(5,344)	(164)	(5,508)
Net income/(loss)	4,112	(12,570)	(8,458)	3,047	(29,336)	(26,289)

Note:

- (1) During 2012, the Group reclassified \$1.3 million of internally generated costs directly related to the renewable energy segment, from corporate and other general and administrative expenses (as previously reported for 2011 of \$12.5 million), increasing operating expenses and general and administrative expenses for the renewable energy segment by \$0.8 million and \$0.5 million, respectively (as previously reported of \$2.1 million and \$2.3 million, respectively). Refer also to Note 7 and Note 8 for further details relating to the reclassification from total general and administrative expenses to operating expenses that occurred to the previously reported 2011 figures.
- (2) Operating expenses and general and administrative expenses, exclude depreciation and amortization expenses (Note 7 and Note 8).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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5. SEGMENT REPORTING (CONTINUED)

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

	2012			2011		
	Renewable Corporate and energy \$'000	other \$'000	Total \$'000	Renewable Corporate and energy \$'000	other \$'000	Total \$'000
Property, plant and equipment	351,577	631	352,208	363,790	319	364,109
Intangible assets	10,431	4,188	14,619	10,740	2,929	13,669
Available for sale investments	-	2,061	2,061	-	2,061	2,061
Cash and cash equivalents (including restricted cash)	30,824	6,926	37,750	30,135	9,521	39,656
Other assets	45,946	193	46,139	44,498	3,583	48,081
Total assets	438,778	13,999	452,777	449,163	18,413	467,576
Borrowings	319,704	80,067	399,771	328,465	78,390	406,855
Trade and other payables	2,188	4,802	6,990	3,072	9,719	12,791
Other liabilities	58,092	2,570	60,662	39,554	5,814	45,368
Total liabilities	379,984	87,439	467,423	371,091	93,923	465,014

The Group's revenue and non-current assets by geographical location are as follows:

	Revenue		Non-current assets	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Italy	55,662	51,910	369,271	399,052
Switzerland	-	-	410	191
Chile	-	-	857	-
Other	-	-	3,427	3,157
Total	55,662	51,910	373,965	402,400

Note:

(1) Non-current assets shown in the table above exclude deferred income tax assets and financial assets (Note 12).

The Group's country of domicile is Canada. However, all revenues from external customers are derived from Italy. All of the Group's electricity is sold to the Italian state-owned company, GSE.

6. REVENUE

	2012 \$'000	2011 \$'000
Feed-in tariff ("FiT") revenue	45,626	42,378
Market Price revenue	10,036	9,532
Total revenue	55,662	51,910

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.

7. OPERATING EXPENSES

	2012 \$'000	2011 \$'000
Operation and maintenance ("O&M") costs	1,936	496
Operating personnel costs	991	864
Depreciation and amortization (operating solar power projects)	19,606	18,658
Taxes (other than income tax) ⁽¹⁾	1,541	572
Insurance	461	635
Land lease Note 28	200	224
Other operating expenses	1,191	699
Total operating expenses	25,926	22,148

Note:

(1) During 2012, the Group reclassified certain items (i.e., other taxes directly related to the Group's operating solar power projects of \$0.6 million and internally generated costs directly related to operations of \$0.7 million) from general and administrative expenses to operating expenses, and, as a result, operating expenses for 2011, as previously reported of \$20.8 million, increased by \$1.3 million, with a corresponding reduction to general and administrative expenses (Note 2(a) and Note 8).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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7. OPERATING EXPENSES (CONTINUED)

O&M costs of \$1.9 million (2011: \$0.5 million) relate to fees paid 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. These costs increased in 2012, due to the additional O&M expenses associated with two of the Group's solar power projects (Cassiopea and Centauro) that commenced after the second year of operations.

Depreciation and amortization of \$19.6 million (2011: \$18.7 million) relate to the Group's operating solar power projects producing electricity during the year. Depreciation and amortization associated with the Group's corporate assets is included within general and administrative expense (Note 8).

8. GENERAL AND ADMINISTRATIVE EXPENSES

	2012	2011
	\$'000	\$'000
Salaries and benefits	2,739	5,682
Pension costs ⁽¹⁾	171	239
Board of Directors fees	240	240
Share-based payment expense (non-cash item) Note 20	495	1,105
Corporate and professional fees	2,502	3,116
Listing, filing and marketing expenses	392	499
Depreciation and amortization (corporate assets)	290	334
Office lease expenses	445	466
Office, travel and other general and administrative expenses ⁽²⁾	1,178	2,086
Total general and administrative expenses	8,452	13,767

Note:

- (1) Pension costs associated with business development personnel, directly attributable to the Group's business development activities of \$79,000 were capitalized within intangible assets during the year. Total pension costs incurred by the Group during the year were \$0.3 million. Note 26
- (2) During 2012, the Group reclassified certain items (i.e., other taxes directly related to the Group's operating solar power projects of \$0.6 million and internally generated costs directly related to operations of \$0.7 million) from general and administrative expenses to operating expenses, and, as a result, general and administrative expenses for 2011, as previously reported of \$15.1 million, decreased by \$1.3 million, with a corresponding increase to operating expenses (Note 2(a) and Note 7).

General and administrative expenses of \$1.1 million (2011: \$nil) representing internally-generated costs and \$0.3 million (2011: \$nil) representing third-party costs, directly attributable to the Group's business development activities were capitalized within intangible assets during the year (Note 15). During 2011, general and administrative expenses of \$0.4 million were capitalized within property, plant and equipment in connection with construction services provided to the Helios ITA-3 and Sagittario solar power projects (Note 14).

9. IMPAIRMENT

	2012	2011
	\$'000	\$'000
Oil and gas investments	-	7,939
Development pipeline in Italy	-	1,733
Total impairment	-	9,672

(a) OIL AND GAS INVESTMENTS

During 2011, the Group recognized an impairment loss of \$7.9 million in relation to its wholly-owned subsidiary, PFC Oil & Gas, CA ("PFC"), which holds available for sale investments in two oil and gas companies, PetroCumarebo SA ("PetroCumarebo") and Baripetrol SA ("Baripetrol"). Further, due to uncertainties associated with the political environment in Venezuela and the increased passage of time with no dividends being declared and paid to the Group by its oil and gas investments, the Company's management concluded that the carrying value of the investments exceeded the expected recoverable amount (Note 16). The recoverable amount is based on management's best estimate of the selling price less costs to sell. No further impairment was recognized in 2012.

(b) DEVELOPMENT PIPELINE IN ITALY

In March 2011, the Italian government approved a decree that included land restrictions for solar photovoltaic plants installed on agricultural land after March 2012. These restrictions impacted the Group's development pipeline in Italy and, as a result, during 2011, the Group assessed its non-operating assets for impairment and recognized an impairment loss of \$1.7 million reducing the carrying value of property, plant and equipment, intangible assets and available for sale investments (Note 14, Note 15 and Note 16). No further impairment was recognized in 2012.

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10. OTHER INCOME

	2012 \$'000	2011 \$'000
Exchange right (non-cash compensation) Note 29	1,375	-
Liquidation damages	105	3,107
Engineering, procurement and construction ("EPC") cancellation fee	-	(185)
Right of use Note 25	44	48
Insurance proceeds	178	-
Other income (net)	249	217
Total other income	1,951	3,187

The Group recognized other income of \$1.4 million (2011: \$nil) 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"), 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.

During 2012, the Group recognized a gain of \$0.1 million from liquidation damages from the O&M contractor for one of the Group's solar power projects due to a loss of revenue during the year.

During 2012, the Group received \$0.2 million of insurance proceeds during the year related to thefts encountered on one of the Group's solar power projects.

During 2011, the Group recognized a gain of \$3.1 million from liquidation damages related to delays encountered by the EPC contractors responsible for the construction of three of the Group's solar power projects (Helios ITA, Etrion Lazio and SVE) and an expense of \$0.2 million for the EPC contract cancellation fee related to the Helios ITA-3 solar power project.

11. FINANCE INCOME AND COSTS

	2012 \$'000	2011 \$'000
Finance income:		
Changes in fair values of derivative financial instruments:		
- Interest rate swap contracts ⁽¹⁾ Note 24	414	1,116
- Ineffective portion reclassified from other comprehensive income Note 21	247	-
Foreign exchange gain	51	-
Other finance income	252	689
Total finance income	964	1,805
Finance costs:		
Interest rate expense:		
- Credit facilities and non-recourse loans Note 22	12,197	12,028
- Interest rate swap contracts associated with non-recourse loans Note 22/24	7,267	6,216
- Corporate bond Note 22/29	7,006	5,262
- Credit facility with related party (Lundin Services BV) Note 22/29	-	1,493
- Credit facility with related party (Lundin family) Note 22/29	-	5,316
- Amortization of transaction costs	840	914
Changes in fair values of derivative financial instruments:		
- Interest rate swap contracts ⁽¹⁾ Note 24	104	704
- De-designated portion reclassified from other comprehensive income Note 21/24	538	-
- Ineffective portion reclassified from other comprehensive income Note 21/24	244	651
Foreign exchange loss	-	391
Other finance costs	416	1,294
Total finance costs before deducting amounts capitalized	28,612	34,269
Amounts capitalized on qualifying assets ⁽¹⁾	-	(2,173)
Total finance costs	28,612	32,096
Net finance costs	27,648	30,291

The Group has five credit facilities outstanding used to finance the construction of its operating solar power projects in Italy, that are hedged using interest rate swap contracts. In addition, the Group has a €60 million corporate bond outstanding in the Norwegian bond market. In 2011, the Group also had a €60 million credit facility with Lundin Services BV that was repaid using the proceeds from the corporate bond in April 2011 and a €28 million bridge loan from investment companies associated with the Lundin family that was repaid in November 2011. [Note 22](#) and [Note 24](#)

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11. FINANCE INCOME AND COSTS (CONTINUED)

At December 31, 2012 and 2011, all of the Group's interest rate swap contracts qualified for hedge accounting. However, during 2012, due to changes to the repayment schedule of one of the Group's credit facilities (Helios ITA), a new interest rate swap contract was entered into, and, as a result, the Group recognized a net fair value gain of \$0.3 million, representing the fair value of the newly established derivative financial instrument at the time it qualified for hedge accounting and a fair value loss of \$0.5 million, representing a portion of the previously recognized fair value losses reclassified from other reserves (Note 21). During 2011, the Group recognized a net fair value gain of \$0.4 million associated with two interest rate swap contracts before they were designated for hedge accounting during the year.

In addition, the Group recognized a net fair value gain of \$3,000 (2011: net fair value loss of \$0.7 million) related to the ineffective portion of the Group's interest rate swap contracts that qualified for hedge accounting. In addition, a fair value loss of \$12.8 million (2011: \$13.7 million), net of tax, was recognized within other reserves related to the effective portion of the Group's interest rate swap contracts (Note 21).

Applicable borrowing costs are capitalized as assets under construction within property, plant and equipment up to the point the associated solar power project is connected to the electricity grid. During 2011, \$2.1 million of the equity-based financing fee related to the €28 million bridge loan from investment companies associated with the Lundin family (Note 29), used to accelerate the construction of the Helios ITA-3 and Sagittario solar power projects, were capitalized within property, plant and equipment. No borrowing costs were capitalized during 2012.

12. INCOME TAXES

(a) INCOME TAX EXPENSE

	2012	2011
	\$'000	\$'000
Current income tax expense:		
Corporate income tax	4,932	5,411
Provincial income tax	1,572	1,846
Total current income tax expense	6,504	7,257
Deferred income tax recovery:		
Temporary differences	(385)	1,238
Tax benefits recognized during the year	(2,074)	(2,987)
Total deferred income tax recovery	(2,459)	(1,749)
Total income tax expense	4,045	5,508

The Group recognized an income tax expense of \$6.4 million (2011: \$7.2 million) associated with its Italian solar power projects and an income tax expense of \$0.1 million (2011: \$0.1 million) associated with its Swiss subsidiary. In addition, the Group recognized a deferred income tax recovery of \$0.4 million (2011: deferred income tax expense of \$1.2 million) in relation to temporary differences arising between the tax bases of assets and liabilities and their carrying amounts and a deferred income tax recovery of \$2.1 million (2011: \$3 million) associated with unutilized tax losses related to non-deductible interest carried forward in Italy (i.e., 30% of EBITDA).

The Group's income tax expense is reconciled to the loss before tax at the Canadian statutory tax rate as follows:

	2012	2011
	\$'000	\$'000
Loss before tax	(4,413)	(20,781)
Income tax expense calculated at 25% (2011: 26.5%)	(1,103)	(5,507)
Tax effects of:		
Non-deductible expenses	3,630	5,192
Effect of non-taxable income	(361)	(118)
Tax losses not recognized	1,503	6,987
Differences in foreign tax rates	376	(1,046)
Total income tax expense	4,045	5,508

(b) CURRENT INCOME TAX LIABILITIES

	2012	2011
	\$'000	\$'000
Corporate income tax	281	3,048
Provincial income tax	323	1,117
Total current income tax liabilities	604	4,165

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12. INCOME TAXES (CONTINUED)

(c) DEFERRED INCOME TAX

The movement of deferred income tax assets and liabilities during 2012 is as follows:

	Opening balance \$'000	Profit or loss \$'000	Other comprehensive income \$'000	Exchange differences \$'000	Recognized directly to equity \$'000	Reclassifications \$'000	Closing balance \$'000
Taxable temporary differences:							
Property, plant and equipment	3,421	(877)	-	(95)	-	(1,776)	673
Intangible assets	617	(14)	-	11	-	323	937
Total deferred income tax liability	4,038	(891)	-	(84)	-	(1,453)	1,610
Deductible temporary differences:							
Property, plant and equipment	135	-	-	-	-	(135)	-
Intangible assets	139	(459)	-	(3)	-	323	-
Tax losses carried forward	222	(24)	-	6	-	-	204
Interest expense carried forward	1,295	2,075	-	89	-	-	3,459
Derivative financial instruments	1,678	62	5,374	25	(148)	(1,641)	5,350
Provisions	214	(86)	-	1	-	-	129
Total deferred income tax asset	3,683	1,568	5,374	118	(148)	(1,453)	9,142
Net deferred income tax assets/(liability)	(355)	2,459	5,374	202	(148)	-	7,532

The movement of deferred income tax assets and liabilities during 2011 is as follows:

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

Deferred income tax assets and liabilities that relate to the same fiscal authority have been offset (as there is a legally enforceable right to offset the current tax assets against the current tax liabilities).

At December 31, 2012, deferred income tax assets of \$9.1 million (2011: \$3.7 million) were expected to be recovered more than twelve months after the balance sheet date. At December 31, 2012, the Group had unrecognized deferred income tax assets in respect of tax losses associated with Italy, Canada, Luxembourg and Venezuela of \$17.9 million (2011: \$15.5 million), of which \$1.7 million (2011: \$1.7 million) expires between one and ten years, \$4.4 million (2011: \$4 million) expires between ten and twenty years and \$11.8 million (2011: \$9.8 million) has no expiry. In addition, at December 31, 2012, the Group had unrecognized deferred income tax assets of \$0.2 million (2011: \$0.2 million) in respect of timing differences associated with its Swiss pension.

In addition, during 2012, the Group recognized an income tax expense of \$5.4 million (2011: \$6.2 million) within other comprehensive income associated with its derivative financial instruments (i.e., interest rate swap contracts). [Note 21](#)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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13. LOSS PER SHARE

Basic loss per share is calculated by dividing the net loss for the year by the weighted average number of shares outstanding during the year. The calculation of basic and diluted loss per share is as follows:

	2012 \$'000	2011 \$'000
Loss attributable to owners of the Company	(8,458)	(26,289)
	Number of shares	
Weighted average number of shares outstanding	201,268,477	184,511,956
Basic and diluted loss per share	\$(0.04)	\$(0.14)

Diluted loss per share equals basic loss per share as, due to losses incurred in 2011 and 2012, there is no dilutive effect from the existing stock options (Note 20) and the previously outstanding exchange right (Note 29).

14. PROPERTY, PLANT AND EQUIPMENT

	Land \$'000	Solar power projects \$'000	Assets under construction \$'000	Equipment and furniture \$'000	Total \$'000
Cost:					
At January 1, 2011	13,530	311,298	21,843	937	347,608
Additions	-	617	54,638	181	55,436
Transfer from assets under construction	-	77,144	(77,144)	-	-
Decommissioning and site restoration costs	-	183	-	-	183
Adjustment for business combinations	-	(418)	-	-	(418)
Impairment	(150)	-	(179)	-	(329)
Exchange differences	(428)	(15,318)	842	(16)	(14,920)
At December 31, 2011	12,952	373,506	-	1,102	387,560
Additions	-	719	-	591	1,310
Disposals	-	(402)	-	(2)	(404)
Exchange differences	254	6,517	-	25	6,796
At December 31, 2012	13,206	380,340	-	1,716	395,262
Accumulated depreciation:					
At January 1, 2011	-	5,792	-	591	6,383
Charge for the year	-	18,356	-	197	18,553
Exchange differences	-	(1,477)	-	(8)	(1,485)
At December 31, 2011	-	22,671	-	780	23,451
Charge for the year	-	19,061	-	206	19,267
Disposals	-	(28)	-	(1)	(29)
Exchange differences	-	355	-	10	365
At December 31, 2012	-	42,059	-	995	43,054
Net book value:					
At December 31, 2011	12,952	350,835	-	322	364,109
At December 31, 2012	13,206	338,281	-	721	352,208

During 2012, no general and administrative expenses and borrowing costs directly attributable to construction activities were capitalized within property, plant and equipment as no solar power projects were constructed during the year. During 2011, the Group capitalized general and administrative expenses of \$0.4 million, representing internally-generated costs, and borrowing costs of \$2.2 million, directly attributable to the construction of three solar power projects (Helios ITA-3, Etrion Lazio and Sagittario) that were connected to the electricity grid during the year. Note 11 and Note 29

At December 31, 2012, \$ nil (2011: \$2.2 million) of borrowing costs were capitalized within property, plant and equipment.

During 2011, the Group recognized an impairment loss of \$0.3 million in relation to its development pipeline in Italy (i.e., non-operating assets), due to changes to the solar FiT regime, reducing the carrying value of land and assets under construction by \$0.1 million and \$0.2 million, respectively. No impairment was recognized in 2012. Note 9

During the year ended December 31, 2011, the Group adjusted the provisional values of assets and liabilities recognized on the acquisition of the two solar power projects (Cassiopea and Centauro) that took place in 2010, resulting in a reduction to property, plant and equipment of \$0.4 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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15. INTANGIBLE ASSETS

	Goodwill \$'000	Licenses and permits \$'000	Other \$'000	Total \$'000
Cost:				
At January 1, 2011	1,866	12,847	355	15,068
Additions	-	750	-	750
Adjustment for business combinations	(107)	-	-	(107)
Impairment	-	(530)	(311)	(841)
Exchange differences	(59)	(368)	(11)	(438)
At December 31, 2011	1,700	12,699	33	14,432
Additions	-	-	1,358	1,358
Exchange differences	33	202	50	285
At December 31, 2012	1,733	12,901	1,441	16,075
Accumulated amortization:				
At January 1, 2011	-	283	-	283
Charge of the year	-	526	-	526
Exchange differences	-	(46)	-	(46)
At December 31, 2011	-	763	-	763
Charge of the year	-	633	-	633
Exchange differences	-	60	-	60
At December 31, 2012	-	1,456	-	1,456
Net book value:				
At December 31, 2011	1,700	11,936	33	13,669
At December 31, 2012	1,733	11,445	1,441	14,619

During 2012, the Group capitalized general and administrative expenses of \$1.4 million (2011: \$nil), including \$1.1 million of internally-generated costs and \$0.3 million of third-party expenses, directly attributable to obtaining and securing licences and permits for the construction and operation of additional solar power projects.

During 2011, the Group recognized an impairment loss of \$0.8 million in relation to its development pipeline in Italy (i.e., non-operating asset), due to changes to the solar FiT regime, reducing the carrying value of licenses and permits and other intangible assets by \$0.5 million and \$0.3 million, respectively. No impairment was recognized in 2012. [Note 9](#)

During 2011, the Group adjusted the provisional values of assets and liabilities recognized on the acquisition of two solar power projects (Cassiopea and Centauro) that took place in 2010, resulting in a reduction to goodwill of \$0.1 million.

GOODWILL IMPAIRMENT TESTING

Goodwill recognized on the acquisition of subsidiaries, that meet the definition of business combinations in accordance with IFRS 3, is allocated to the CGU expected to benefit from the synergies of the combination in accordance with the Group's accounting policy outlined in [Note 2\(d\)](#). The Group's impairment assessment is made using value-in-use calculations as outlined in [Note 3\(a\)](#).

Goodwill has been allocated to the CGU's relating to the Group's solar power as follows:

	2012 \$'000	2011 \$'000
Renewable energy segment (Italy):		
CGU 1 (SVE)	32	31
CGU 2 (Helios ITA)	123	120
CGU 3 (Helios ITA-3)	192	188
CGU 4 (Etrion Lazio)	55	54
CGU 5 (Cassiopea)	815	799
CGU 6 (Centauro)	489	480
CGU 7 (Sagittario)	27	28
Total goodwill	1,733	1,700

At December 31, 2012, the Group assessed the carrying value of goodwill for impairment and determined that the recoverable amount of the CGU's to which goodwill had been allocated exceeded their carrying values, and, as a result, no impairment was provided for in 2012 (2011: \$nil).

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16. FINANCIAL ASSETS

	Available for sale \$'000	Loans and receivables \$'000	Total \$'000
At December 31, 2012			
Non-current assets:			
Available for sale investments	2,061	-	2,061
Total non-current financial assets	2,061	-	2,061
Current assets			
Trade and other receivables	-	6,712	6,712
Cash and cash equivalents	-	37,750	37,750
Total current financial assets	-	44,462	44,462
Total financial assets	2,061	44,462	46,523

At December 31, 2011			
Non-current assets:			
Available for sale investments	2,061	-	2,061
Total non-current financial assets	2,061	-	2,061
Current assets			
Trade and other receivables	-	11,430	11,430
Cash and cash equivalents	-	39,656	39,656
Total current financial assets	-	51,086	51,086
Total financial assets	2,061	51,086	53,147

AVAILABLE FOR SALE INVESTMENTS

	Company's share	2012 \$'000	2011 \$'000
PetroCumarebo	40%	392	392
Baripetrol	5%	1,669	1,669
Total available for sale investments		2,061	2,061

At December 31, 2012 and 2011, the available for sale investments represented unquoted equity investments.

Oil and gas investments

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

Although the Group has a 40% interest into PetroCumarebo, at December 31, 2012 and 2011, this investment was classified as an available for sale investment as the Group does not have the ability to exercise significant influence over the financial and operational decisions of the company. This is primarily due to the political situation in Venezuela, which has hindered the collection of dividends in recent years.

During 2011, the Group recognized an impairment loss of \$7.9 million associated with these investments because the carrying value of the investments exceeded the expected recoverable amount. The recoverable amount is based on management's best estimate of the selling price less costs to sell. No impairment was recognized in 2012.

Note 9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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17. TRADE AND OTHER RECEIVABLES

	2012 \$'000	2011 \$'000
Current portion of trade and other receivables:		
Financial assets ⁽¹⁾		
- Trade receivables	5,657	10,817
- Term deposits	-	613
- Other financial assets	1,055	-
Total financial assets <i>Note 16</i>	6,712	11,430
Input VAT	21,294	6,644
Advances paid and prepaid expenses	1,224	676
Other current assets	1,001	1,684
Impairment loss provision	(370)	(658)
Total current portion of trade and other receivables	29,861	19,776
Non-current portion of trade and other receivables:		
Input VAT	3,588	19,971
Investment tax credit, advances paid and prepaid expenses	3,605	4,707
Impairment loss provision	(57)	(56)
Total non-current portion of trade and other receivables	7,136	24,622
Total trade and other receivables	36,997	44,398

Note:

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

The carrying values of the financial assets approximate their fair values due to these assets having a relatively short maturity and the Group has no non-current financial assets included within trade and other receivables. The Group does not hold any collateral as security.

Trade receivables relate to the sale of electricity from the Group's solar power projects to the operators of the electricity grid.

Prepaid tax and input VAT primarily relate to amounts expected to be collected for eligible expenditure from the relevant authorities in Italy associated with the Group's solar power projects. A portion of the VAT is classified as non-current as the amounts are expected to be collected after twelve months from the balance sheet date. The non-current portion of the VAT has not been discounted as the amounts are interest-bearing at market rates. In addition, a tax credit receivable of \$1.2 million (2011: \$1.2 million) included within the current portion of prepaid taxes and input VAT relates to the Group's past oil and gas operations.

An aging analysis of the Group's trade receivables is as follows:

	2012 \$'000	2011 \$'000
Up to three months	1,722	3,359
3 to 6 months	-	1,838
6 to 9 months	-	917
Total trade and other receivables past due but not impaired	1,722	6,114
Trade and other receivables not past due	3,935	4,703
Total trade and other receivables	5,657	10,817

At December 31, 2012, trade and other receivables of \$1.7 million were past due but not impaired of which \$1.7 million was received after the balance sheet date. At December 31, 2011, trade and other receivables of \$6.1 million were past due but not impaired all of which were received after the balance sheet date.

Movement in the Group's provision for impairment associated with trade and other receivables is as follows:

	2012 \$'000	2011 \$'000
Impairment loss provision at the beginning of the year	714	391
Provision recognized during the year	-	303
Utilization during the year	(301)	-
Exchange differences	14	20
Total impairment loss provision at the end of the year	427	714
- Current portion	370	658
- Non-current portion	57	56

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17. TRADE AND OTHER RECEIVABLES (CONTINUED)

During 2011, the Group recognized an impairment provision of \$0.3 million related to an advance payment made to an Italian developer that was written-off during 2012. In addition, \$0.3 million was included within the impairment loss provision at December 31, 2012, relating to a tax credit receivable associated with the Group's oil and gas investments that was written-off during the 2008. Amounts charged to the allowance account are generally written-off when there is no expectation of recovering additional cash.

The currencies of the Group's financial assets included within trade and other receivables are as follows:

	2012 \$'000	2011 \$'000
Euros	35,313	42,813
US dollars	212	-
Canadian dollars	224	243
Japanese Yen	7	-
Swiss francs	172	213
Venezuelan bolivars	1,069	1,129
Total trade and other receivables	36,997	44,398

18. CASH AND CASH EQUIVALENTS (INCLUDING RESTRICTED CASH)

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

	2012 \$'000	2011 \$'000
Cash at banks	37,750	39,656
Total	37,750	39,656

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

	2012 \$'000	2011 \$'000
Unrestricted cash and cash equivalents	6,926	10,004
Cash and cash equivalents restricted to solar power projects	30,824	29,652
Total	37,750	39,656

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

19. SHARE CAPITAL

The Company has authorized capital consisting of an unlimited number of common shares, of which 205,746,419 are issued and outstanding at December 31, 2012 (2011: 187,536,120). In addition, the Company is authorized to issue an unlimited number of preferred shares, issuable in series, none of which have been issued. The common shares of the Company have no par value, are all of the same class, carry voting rights, and entitle shareholders to receive dividends as and when declared by the Board of Directors.

	Number of Shares outstanding	Share capital \$'000
At January 1, 2011	179,766,120	16,741
Equity-based financing fee Note 29	6,500,000	5,596
Stock options exercised Note 20	1,270,000	956
At December 31, 2011	187,536,120	23,293
Share issuance Note 29	18,210,299	9,977
At December 31, 2012	205,746,419	33,270

No dividends were declared in the years ended December 31, 2011 and 2012.

No stock options were exercised in 2012. During 2011, the Company issued 1,270,000 shares with a fair value of \$0.75 (CAD\$0.73) as a result of stock options being exercised during the year. [Note 20](#)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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19. SHARE CAPITAL (CONTINUED)

On March 30, 2012, Mr. Northland exercised his right to exchange his previously held 10% equity interest in SRH for an equivalent fair value of shares in the Company. As a result, 18,210,299 common shares were issued to Mr. Northland, in 2012, increasing the Company's equity interest in SRH to 100%.

20. SHARE-BASED PAYMENTS

The Company maintains an equity-settled stock option awards scheme for employees, consultants, directors and officers. 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 2012, the Group recognized share-based payment expenses of \$0.5 million (2011: \$1.1 million) related to its stock option awards scheme. In 2011 share-based payment expenses also included \$0.4 million that related to Mr. Northland's previously held 10% equity interest in the Company's subsidiary, SRH. [Note 29](#)

Movement in the Company's outstanding stock options is as follows:

	Number of share options	Weighted average exercise price CAD\$
At January 1, 2011	8,052,200	0.73
Granted	485,000	0.66
Exercised	(1,270,000)	0.43
Forfeited	(1,020,000)	0.58
Expired	(1,880,000)	1.00
At December 31, 2011	4,367,200	0.74
Granted	3,681,000	0.38
Cancelled	(598,200)	1.14
At December 31, 2012	7,450,000	0.53
Stock options exercisable:		
At December 31, 2011	2,482,399	0.82
At December 31, 2012	3,247,667	0.67

A summary of the Company's stock options issued and outstanding at December 31, 2012 is as follows:

Exercise price (CAD\$)	Number of share options outstanding	Number of share options exercisable	Expiry date	Weighted average contractual life (years)
0.25	33,333	33,333	December 8, 2013	0.75
0.34	188,000	-	October 21, 2017	4.80
0.34	1,546,000	-	September 24, 2017	4.73
0.35	290,000	290,000	May 13, 2014	1.36
0.36	1,300,000	-	July 7, 2017	4.51
0.52	647,000	-	March 19, 2017	4.21
0.55	1,331,667	1,331,667	September 11, 2014	1.20
0.61	580,000	386,666	January 6, 2015	2.02
0.66	959,000	672,668	December 7, 2015	2.93
0.86	125,000	83,333	October 18, 2015	2.80
1.00	200,000	200,000	September 25, 2013	0.75
1.59	250,000	250,000	April 28, 2018	5.32
	7,450,000	3,247,667		

The Company recognizes an expense within general and administrative expenses when stock options are granted to employees, consultants, directors and officers using the fair value method at the date of grant. Share-based compensation is calculated using the Black-Scholes option pricing model. The weighted average fair value of options granted and the assumptions used in their determination are as follows:

	2012	2011
Weighted average share price at grant date	CAD\$0.38	CAD\$0.66
Exercise price	CAD\$0.38	CAD\$0.66
Risk-free interest rate	1.39%	2.37%
Expected volatility	106.5%	82.05%
Dividend yield rate	0.00%	0.00%
Contractual life of stock options	5 years	5 years
Fair value at grant date	CAD\$0.29	CAD\$0.44

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20. SHARE-BASED PAYMENTS (CONTINUED)

The expected volatility is based on a statistical analysis of the Company's share price over the period of time equivalent to the contractual term of the option. For options granted after September 30, 2010, the Company has used the daily share price since September 30, 2009, the date the Company completed its first renewable energy acquisition.

21. OTHER RESERVES

	Translation reserve \$'000	Hedging reserve \$'000	Transactions with non- controlling interests \$'000	Total \$'000
At January 1, 2011	(342)	3,040	43	2,741
Currency translation difference:				
- Gain on translation adjustment	1,153	-	-	1,153
Cash flow hedges:				
- Loss on fair value movements	-	(20,205)	-	(20,205)
- Tax on loss on fair value movements	-	6,460	-	6,460
- Ineffective portion of fair value movements to profit or loss	-	651	-	651
- Tax on ineffective portion of fair value movements to profit or loss	-	(229)	-	(229)
At December 31, 2011	811	(10,283)	43	(9,429)
Currency translation difference:				
- Loss on translation adjustment	(1,011)	-	-	(1,011)
Cash flow hedges:				
- Loss on fair value movements	-	(18,162)	-	(18,162)
- Tax on loss on fair value movements	-	5,374	-	5,374
- Ineffective portion of fair value movements to profit or loss	-	(1)	-	(1)
- Tax on ineffective portion of fair value movements to profit or loss	-	(1)	-	(1)
- Re-designated portion of derivative to profit or loss	-	538	-	538
- Tax on re-designated portion of derivative to profit or loss	-	(148)	-	(148)
At December 31, 2012	(200)	(22,683)	43	(22,840)

The translation reserve is used to record foreign currency exchange differences arising from the translation of the financial statements of foreign operations as described in [Note 2\(f\)](#).

The hedging reserve includes the effective portion of changes in the fair value (net of tax) of the Group's derivative financial instruments (i.e., interest rate swap contracts) that qualify for hedge accounting. The ineffective portion of these derivative financial instruments is included within finance income/costs ([Note 11](#)). At December 31, 2012 and 2011, all of the Group's interest rate swap contracts qualified for hedge accounting.

22. BORROWINGS

	Corporate borrowings \$'000	Non-recourse project loans \$'000	Total \$'000
At January 1, 2011	75,224	273,733	348,957
Proceeds from loans	127,489	79,765	207,254
Repayment of loans and interest	(125,562)	(24,238)	(149,800)
Accrued interest	6,771	11,831	18,602
Amortization of transaction costs	235	668	903
Exchange differences	(5,765)	(13,296)	(19,061)
At December 31, 2011	78,392	328,463	406,855
- Current portion	1,398	14,632	16,030
- Non-current portion	76,994	313,831	390,825
At January 1, 2012	78,392	328,463	406,855
Proceeds from loans	-	2,242	2,242
Repayment of loans and interest	(7,070)	(29,788)	(36,858)
Accrued interest	6,957	12,197	19,154
Amortization of transaction costs	173	666	839
Exchange difference	1,615	5,924	7,539
At December 31, 2012	80,067	319,704	399,771
- Current portion	1,445	28,579	30,024
- Non-current portion	78,622	291,125	369,747

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22. BORROWINGS (CONTINUED)

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

	2012 \$'000	2011 \$'000
Less than 1 year	30,024	16,030
Between 1 and 5 years	139,475	152,722
After 5 years	230,272	238,103
Total borrowings	399,771	406,855

(a) CORPORATE BORROWINGS

At December 31, 2012 and 2011, the Group was not in breach of any of the imposed operational and financial covenants associated with its corporate borrowings.

Corporate bond

In April 2011, the Company issued €60 million of corporate bonds in the Norwegian bond market at 9% annual interest with a 4-year maturity. At December 31, 2012, the amount outstanding, including accrued interest and net of transaction costs was \$80 million (2011: \$78.4 million), in accordance with the amortized cost method. At December 31, 2012, the fair value of the corporate bond amounted to \$76.6 million (2011: \$77 million) using the discounted cash flow method. [Note 29](#)

The corporate bond agreement includes a call option which allows the Company to redeem the bond early (in full or in part), after the first, second and third year at a specified percentage over par value (i.e., a fixed premium) of 5%, 3% and 1%, respectively. At December 31, 2012, no amount was recognized in relation to this option. In addition, the corporate bond has a minimum unrestricted cash balance requirement of €3 million.

Lundin family bridge loan

In order to accelerate construction of the Helios ITA-3 and Sagittario solar power projects, in June 2011, the Company received a €28 million bridge loan from investment companies associated with the Lundin family. The bridge loan was non-interest bearing and matured in June 2012. In consideration for the bridge loan, the Company issued 6,500,000 common shares to investment companies associated with the Lundin family. In November 2011, the Company repaid the bridge loan primarily using proceeds from the non-recourse loan facility with Natixis, WestLB and Mediocreval for the Helios ITA-3 and Sagittario solar power projects. [Note 29](#)

Lundin Services BV loan

In April 2010, the Company entered into a loan facility agreement with Lundin Services BV, a wholly-owned subsidiary of Lundin Petroleum AB, for up to €60 million in order to finance capital and operating expenditures of the Group. The loan carried an annual interest rate of Euribor plus a margin of 3% until March 31, 2011, with a margin of 5% thereafter. In May 2011, the net proceeds from the Company's corporate bond issue were used to repay the loan facility in full. [Note 29](#)

(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 1.35% to 3.1%. At December 31, 2012 and 2011, the fair value of the non-recourse project loans approximated their carrying values, as the loans bear floating interest rates. At December 31, 2012, the Group had no undrawn amounts associated with these facilities (2011: €1.7 million).

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. The value of the Group's fixed assets held as collateral at December 31, 2012 was \$351 million (2011: \$364 million).

Repayment of these facilities is secured principally by the proceeds from the sale of electricity under contracts entered into by the Group with the GSE and the proceeds from the collection of input VAT accumulated for construction costs. Counterparties to the non-recourse project loans do not have unconditional or unilateral discretionary rights to accelerate repayment to earlier dates.

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22. BORROWINGS (CONTINUED)

(b) NON-RECOURSE PROJECT LOANS (CONTINUED)

All non-recourse projects loans are hedged through interest rate swap contracts all of which qualified for hedge accounting at December 31, 2012 and 2011.

The operations of the Group's solar power projects are restricted by operational and financial covenants. At December 31, 2012 and 2011, the Group was not in breach of any of the imposed covenants.

23. FINANCIAL LIABILITIES

	Other financial liabilities \$'000	Derivative financial instruments \$'000	Total \$'000
At December 31, 2012			
Non-current financial liabilities:			
Borrowings	369,747	-	369,747
Derivative financial instruments	-	40,558	40,558
Total non-current financial liabilities	369,747	40,558	410,305
Current financial liabilities:			
Trade and other payables	2,241	-	2,241
Borrowings	30,024	-	30,024
Derivative financial instruments	-	9,662	9,662
Total current financial liabilities	32,265	9,662	41,927
Total financial liabilities	402,012	50,220	452,232
At December 31, 2011			
Non-current financial liabilities:			
Borrowings	390,825	-	390,825
Derivative financial instruments	-	25,213	25,213
Total non-current financial liabilities	390,825	25,213	416,038
Current financial liabilities:			
Trade and other payables	8,200	-	8,200
Borrowings	16,030	-	16,030
Derivative financial instruments	-	5,462	5,462
Total current financial liabilities	24,230	5,462	29,692
Total financial liabilities	415,055	30,675	445,730

Note:

- (1) Trade and other payables shown here excludes accrued expenses and other non-financial liabilities (Note 27).

24. DERIVATIVE FINANCIAL INSTRUMENTS

	2012 \$'000	2011 \$'000
Derivative financial liabilities:		
Interest rate swap contracts (cash flow hedges)		
- Current portion	9,662	5,462
- Non-current portion	40,558	25,213
Total derivative financial liabilities	50,220	30,675

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

At December 31, 2012, the notional amount of the Group's interest rate swap contracts was \$300.5 million (2011: \$307.3 million), all of which were denominated in Euros. Due to a lower Euribor forecasted curve in comparison with projections in the hedging agreements, the fair market value of the instruments at December 31, 2012, increased to a liability position of \$50.2 million (2012: \$30.7 million).

At December 31, 2012 and 2011, all of the Group's derivative financial instruments qualified for hedge accounting, with fair value movements accounted for within equity (except for the ineffective portion that is transferred to finance income/costs). However, during 2012, due to the de-designation of one of the Group's interest rate swap contracts, a net fair value gain of \$0.3 million was recognized within finance income/costs and during 2011, the Group recognized a net fair value gain of \$0.4 million within finance income/costs before two derivative financial instruments were designated for hedge accounting. Note 11 and Note 21

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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25. PROVISIONS

	Decommissioning and site restoration \$'000	Tax claims \$'000	Right of use \$'000	Equipment provision \$'000	Investment tax credit \$'000	Post- employment benefits \$'000	Total \$'000
At January 1, 2011	621	870	664	-	-	-	2,155
Additions	183	-	562	-	3,368	986	5,099
Change in estimate	(225)	-	-	-	-	-	(225)
Unwinding of discount	35	-	-	-	-	-	35
Utilization	-	-	(48)	-	(247)	-	(295)
Exchange differences	(41)	-	(18)	-	(220)	-	(279)
At December 31, 2011	573	870	1,160	-	2,901	986	6,490
Non-current	573	-	1,160	-	2,901	986	5,620
Current	-	870	-	-	-	-	870
At January 1, 2012	573	870	1,160	-	2,901	986	6,490
Additions	-	-	-	1,758	-	243	2,001
Change in estimate	233	-	-	-	-	(251)	(18)
Unwinding of discount	40	-	-	-	-	-	40
Utilization	-	-	(45)	-	(210)	(146)	(401)
Exchange differences	18	-	24	-	52	22	116
At December 31, 2012	864	870	1,139	1,758	2,743	854	8,228
Non-current	864	-	1,139	-	2,743	854	5,600
Current	-	870	-	1,758	-	-	2,628

Refer to **Note 26** for further details relating to the Group's obligations associated with post-employment benefits.

(a) DECOMMISSIONING AND SITE RESTORATION

In accordance with the environmental legislation in Italy, the Group has a legal obligation to complete the landfill site restoration and decommissioning of its solar power projects after their expected closure. The provision for decommissioning and site restoration is determined using the nominal prices effective at the reporting dates by applying the forecasted rate of inflation for the expected life of the solar power projects. Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning and reclamation alternatives, discounts applied for economies of scale and the rate of inflation.

Principal assumptions made in order to calculate the Group's provision for decommissioning and site restoration are as follows:

	2012	2011
Discount rate	5.13%	7.36%
Inflation rate	2%	2%
Average expected life of solar power plant	19 years	20 years

The discount rate of 5.13% represents the government bond-yield rate in Italy for a period equivalent to the expected life of the solar power projects. This rate decreased by 2.23% in 2012 due to a decrease in the risk-free rate (pre-tax) on Italian bonds for 18.37 years (representing the approximate remaining life of the Group's solar power projects). The inflation rate of 2% represents the inflationary environment in Italy where the liability will be settled and is consistent with the rate used by the Company's management to value the Group's solar power projects. The average expected life of the solar power plants is 20 years based on the 20-year FIT contracts entered into with the Government for the sale of electricity.

(b) TAX CLAIMS

At December 31, 2010, the Group recognized a provision for tax claims of \$0.9 million relating to tax assessments received from the National Integrated Customs and Tax Administration Services ("SENIAT") in Venezuela associated with the Group's income tax filings for the years ended December 31, 2001 to 2004, which includes interest and penalties. The Group has submitted compensation requests to the SENIAT in order to offset these amounts owing with input VAT outstanding from the tax authorities in Venezuela. At December 31, 2012, the Group had not received a response from the SENIAT. If the Venezuelan tax authority declines the Group's request, the Group will be liable for the entire amount of \$0.9 million (2011: \$0.9 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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25. PROVISIONS (CONTINUED)

(c) RIGHT OF USE

One of the Group's solar power projects (Cassiopea) is part of a larger solar park, previously built by SunPower Corporation ("SunPower"). Cassiopea, being the first solar power project built in the solar park, included a substation with extra capacity. In accordance with the sale and purchase agreement, as future plants are connected within the solar park, a payment is to be made to Cassiopea for the right to use part of the substation. During 2010, two solar power plants were connected to the grid and accordingly Cassiopea received \$1.2 million for their right to use the substation. At December 31, 2010, the Company recognized \$0.7 million as deferred income to be recognized in the consolidated statement of comprehensive income over the life of the credit facility associated with the Cassiopea solar power plant and \$0.6 million as trade and other payables representing the amount expected to be paid to SunPower (representing the net present value of the amounts received). During 2011, the amount previously owed to SunPower of \$0.6 million was reclassified to deferred income as this amount was no longer expected to be paid. During 2012, the Group recognized other income of \$44,000 (2011: \$48,000) associated with the release of the deferred income over the life of the facility (Note 10).

(d) INVESTMENT TAX CREDIT

In February 2010, the Group received, from the Italian tax authorities, a Visco SUD investment tax credit of €2.4 million associated with the construction of one of its solar power projects (SVE). The investment tax credit, representing 20% of the Group's investment into the solar power project, can be utilized to offset future taxable income generated by the solar power project, thereby reducing the Group's income tax expense for the given year. As a result, in 2011, once the SVE solar power project was connected to the electricity grid and started producing solar electricity, the Group recognized an investment tax credit of \$3.4 million within trade and other receivables and a corresponding amount within provisions as deferred income. During 2012, the Group utilized a portion of this investment tax credit, reducing the Group's current income tax liabilities by \$0.2 million (2011: \$0.2 million).

(e) EQUIPMENT PROVISION

In June, 2012, The Group executed a bond guarantee from an Italian contractor (Solon A.B.) in accordance with the EPC contract. As a result, the Group recognized deferred income of \$1.7 million, representing the amount received that will be released upon completion of the associated expenditure, expected to be completed in the first half of 2013.

26. RETIREMENT OBLIGATIONS

The Group operates a defined benefit pension plan in Switzerland that is managed through a private fund. At December 31, 2012, the Group recognized \$0.3 million within other comprehensive income associated with actuarial gains (2011: actuarial loss of \$1 million).

The amount recognized in the balance sheet associated with the Group's Swiss pension plan is as follows:

	2012	2011
	\$'000	\$'000
Present value of funded obligations	1,887	2,108
Fair value of plan assets	(1,064)	(1,122)
Adjustment for amounts not paid	31	-
Net liability position	854	986
Experience adjustments on plan liabilities	(385)	68
Experience adjustments on plan assets	49	14

The movement in the defined benefit obligation over the year is as follows:

	2012	2011
	\$'000	\$'000
Defined benefit obligation at the beginning of the year	2,108	1,675
Current service cost	230	218
Employee contributions	109	149
Interest cost	49	46
Contributions paid by plan participants	9	48
Benefits paid	(457)	(243)
Actuarial (gain)/loss	(211)	211
Exchange differences	50	4
Defined benefit obligation at the end of the year	1,887	2,108

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26. RETIREMENT OBLIGATIONS (CONTINUED)

The movement in the fair value of the plan assets over the year is as follows:

	2012 \$'000	2011 \$'000
Fair value of plan assets at the beginning of the year	1,122	910
Expected return on plan assets	29	25
Employer contributions	183	242
Employee contributions	109	149
Contributions paid by plan participants	9	48
Benefits paid	(457)	(243)
Actuarial gain/(loss)	41	(11)
Exchange differences	28	2
Fair value of plan assets at the end of the year	1,064	1,122

The actual return on the Group's plan assets during 2012 was \$70,000 (2011: \$14,000). The plan assets are comprised as follows:

	2012		2011	
	%	\$'000	%	\$'000
Cash and cash equivalents (including term deposit)	7.5%	80	9.00%	101
Fixed interest rate instruments	49.6%	528	50.60%	568
Equity instruments	29.8%	317	28.50%	320
Real estate	13.1%	139	11.90%	133
Total fair value of plan assets		1,064		1,122

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

The amount recognized in the income statement associated with the Group's pension plan is as follows:

	2012 \$'000	2011 \$'000
Current service cost	230	218
Interest cost	49	46
Expected return on plan assets	(29)	(25)
Total expense recognized during the year	250	239

The expense associated with the Group's pension plan of \$0.3 million (2011: \$0.2 million) for the year ended December 31, 2011 was included within general and administrative expenses.

The principal actuarial assumptions used to estimate the Group's pension obligation are as follows:

	2012 \$'000	2011 \$'000
Discount rate	1.75%	2.25%
Rate of inflation	1.00%	1.00%
Expected rate of return on plan assets	Not applicable	2.50%
Future salary increases	1.00%	1.00%
Future pension increases	0.00%	0.00%
Retirement age	Men 65 Women 64	Men 65 Women 64

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in Switzerland.

The discount rate is determined by reference to the yield on high-quality corporate bonds (i.e., Swiss bond market over 15 years). The rate of inflation is based on the expected value of future annual inflation adjustments in Switzerland. The expected rate of return on plan assets takes into account the asset structure, maturities and reinvestment possibilities. The rate for future salary increases is based on the average increase in the salaries paid by the Group and the rate of pension increases is based on the annual increase in risk, retirement and survivor's benefits.

Contributions to the Group's pension plan during 2013 are expected to be \$0.3 million.

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27. TRADE AND OTHER PAYABLES

	2012 \$'000	2011 \$'000
Financial liabilities:		
Trade payables	1,116	1,899
Exchange right obligation Note 29	-	5,176
Payable to Baripetrol	1,125	1,125
Total financial liabilities⁽¹⁾ Note 23	2,241	8,200
Accrued expenses	2,725	3,301
Other trade and other payables	2,024	1,290
Total trade and other payables	6,990	12,791

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

The carrying value of the Group's financial liabilities within trade and other payables approximates their fair value due to the relatively short maturity of these liabilities. The currency of the Group's trade and other payables are as follows:

	2012 \$'000	2011 \$'000
US dollars	2,754	1,185
Euros	3,596	10,397
Swiss francs	487	1,001
Japanese Yen	22	-
Canadian dollars	84	14
Swedish Krona	47	-
Venezuelan bolivars	-	194
Total trade and other payables	6,990	12,791

28. OPERATING LEASES

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

	2012 \$'000	2011 \$'000
Next year	627	558
Years 2 through 5	1,990	1,216
Beyond 5 years	3,834	3,746
Total minimum lease payments	6,451	5,520

During 2012, the Group recognized \$0.6 million (2011: \$0.7 million) of operating lease expenses, of which \$0.2 million (2011: \$0.2 million) related to land leases included within operating expenses ([Note 7](#)) and \$0.4 million (2011: \$0.5 million) related to office leases included within general and administrative expenses ([Note 7](#)).

The Group has no finance leases at December 31, 2012 and 2011.

29. RELATED PARTIES

For the purposes of preparing the Company's consolidated financial statements, parties are considered to be related, if one party has the ability to control the other party, under ordinary control, or if one party can exercise significant influence over the other party in making financial and operational decisions as defined by *IAS 24, Related Party Disclosures*. The Company's major shareholder is the Lundin family, held through various trusts, which collectively own approximately 22% of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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29. RELATED PARTIES (CONTINUED)

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed below. Details of transactions between the Group and other related parties are disclosed below.

(a) RELATED PARTY TRANSACTIONS

The Group has entered into the following transactions with related parties:

	2012 \$'000	2011 \$'000
General and administrative expenses:		
Lundin Services BV	37	48
Lundin Petroleum SA	-	37
Finance costs:		
Lundin Services BV:		
- Interest expense	-	1,493
- Loan transaction costs	-	113
- Interest expense associated with corporate bond	881	666
- Transaction costs associated with corporate bond	22	15
Lundin family:		
- Interest expense associated with corporate bond	1,739	1,315
- Transaction costs associated with corporate bond	43	30
- Equity-based financing fee ⁽¹⁾	-	5,316
Total transactions with related parties	2,722	9,033

Note:

- (1) \$2.1 million of the equity-based financing fee related to the €28 million bridge loan from investment companies associated with the Lundin was capitalized within property, plant and equipment. [Note 11](#) and [16](#)

Amounts outstanding to related parties at December 31, 2012 and 2011 are as follows:

	2012 \$'000	2011 \$'000
Current liabilities:		
Lundin Family (short-term bridge loan)	1,500	-
Lundin Services BV:		
- General and administrative expenses	-	3
- Participation in corporate bond	180	177
Lundin family (participation in corporate bond)	356	349
Total current liabilities	2,036	529
Non-current liabilities:		
Lundin Services BV (participation in corporate bond)	9,945	9,752
Lundin family (participation in corporate bond)	16,628	19,248
Total non-current liabilities	26,573	29,000
Total amounts outstanding to related parties	28,609	29,529

There were no amounts outstanding from related parties at December 31, 2012 and 2011.

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.

In April 2011, Lundin Services BV subscribed for €8.9 million of the corporate bonds issued by the Company at 9% annual interest with a 4-year maturity. In April and May of 2011, Lundin Services BV sold €1.3 million of the corporate bonds, reducing their position to €7.6 million.

In April 2010, the Company entered into a loan agreement with Lundin Services BV to draw up to €60 million. This loan was fully repaid in May 2011.

Lundin family

In April 2011, investment companies associated with the Lundin family subscribed for €15 million of the corporate bonds issued by the Company at 9% annual interest with a 4-year maturity.

In addition, in June 2011, investment companies associated with the Lundin family provided a €28 million bridge loan, in order to accelerate the construction of the Helios ITA-3 and Sagittario solar power projects that was fully repaid in November of 2011.

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29. RELATED PARTIES (CONTINUED)

(a) RELATED PARTY TRANSACTIONS (CONTINUED)

Lundin family (continued)

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 was non-interest bearing and was repaid in February 2013.

Lundin Petroleum SA

The Group receives administrative support services from Lundin Petroleum SA, a wholly-owned subsidiary of Lundin Petroleum AB.

(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. Remuneration of key management personnel is as follows:

	2012	2011
	\$'000	\$'000
Salaries and short-term benefits	850	1,132
Pension costs	145	142
Termination payments	62	-
Board of Directors	240	240
Share-based payment	284	706
Total	1,581	2,220

Amounts outstanding to key management personnel at December 31, 2012 and 2011 are as follows:

	2012	2011
	\$'000	\$'000
Mr. Northland's guaranteed floor	-	5,176
Board of Directors (non-executive directors)	60	60
Other (bonus payable and pension costs payable)	144	278
Total	204	5,514

There were no amounts outstanding from key management personnel at December 31, 2012 and 2011.

Mr. Northland's exchange right

Upon the acquisition of a 90% equity interest in SRH in September 2009, the Company entered into a shareholders' agreement with Mr. Northland, who then held the remaining 10% equity interest in SRH. The agreement provided Mr. Northland with the right to convert such interest in SRH for an equivalent fair value of shares in the Company with a guaranteed floor on the transaction of €4 million. On March 30, 2012, Mr. Northland exercised his right, and, as a result, 18,210,299 common shares of the Company were issued to Mr. Northland. As a result, the Company now owns 100% of SRH. The value of SRH for the purpose of the conversion was based on the market capitalization of the Company less the value of its legacy oil and gas investments and subject to certain other adjustments related to the Company's corporate debt and cash on hand. The number of shares issued was calculated by reference to the weighted average share price of the Company's common shares over the three month period prior to March 30, 2012.

Following the conversion, 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 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). During 2011, the Group recognized a share-based payment expense of \$0.1 million and \$0.3 million, respectively, related to the carried interest associated with this arrangement and at December 31, 2011, the Group recognized a financial liability of \$5.2 million, included within current liabilities associated with the guaranteed floor. [Note 27](#), [Note 19](#), [Note 8](#) and [Note 10](#)

30. COMMITMENTS

At December 31, 2012 and 2011, the Group had no committed capital expenditure outstanding.