

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

etrion

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

THREE AND SIX MONTHS ENDED JUNE 30, 2012

UNAUDITED

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Unaudited
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Unaudited

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012

UNAUDITED

Expressed in US\$'000

	Note	Three months ended		Six months ended	
		June 30 2012 \$'000	June 30 2011 \$'000	June 30 2012 \$'000	June 30 2011 \$'000
Revenue	5	19,198	17,829	29,936	25,106
Operating expenses	6	(5,708)	(4,896)	(11,305)	(9,729)
<b>Gross profit</b>		<b>13,490</b>	<b>12,933</b>	<b>18,631</b>	<b>15,377</b>
General and administrative expenses	7	(2,992)	(4,039)	(5,465)	(7,673)
Other income/(expenses)	8	588	(539)	1,991	1,386
<b>Operating profit</b>		<b>11,086</b>	<b>8,355</b>	<b>15,157</b>	<b>9,090</b>
Finance income	9	122	320	582	2,125
Finance costs	9	(7,492)	(8,493)	(14,772)	(12,833)
<b>Net finance costs</b>		<b>(7,370)</b>	<b>(8,173)</b>	<b>(14,190)</b>	<b>(10,708)</b>
<b>Income/(loss) before income tax</b>		<b>3,716</b>	<b>182</b>	<b>967</b>	<b>(1,618)</b>
Income tax expense	10	(2,960)	(2,306)	(2,512)	(2,027)
<b>Income/(loss) for the period</b>		<b>756</b>	<b>(2,124)</b>	<b>(1,545)</b>	<b>(3,645)</b>
<b>Other comprehensive (loss)/income:</b>					
Gain/(loss) on currency translation		404	262	(142)	1,664
(Loss)/gain on cash flow hedges (net of tax)		(4,811)	(2,414)	(6,379)	2,110
<b>Total other comprehensive (loss)/income</b>		<b>(4,407)</b>	<b>(2,152)</b>	<b>(6,521)</b>	<b>3,774</b>
<b>Total comprehensive (loss)/income for the period</b>		<b>(3,651)</b>	<b>(4,276)</b>	<b>(8,066)</b>	<b>129</b>
Income/(loss) attributable to:					
Owners of the parent company		756	(2,124)	(1,545)	(3,645)
Total comprehensive (loss)/income attributable to:					
Owners of the parent company		(3,651)	(4,276)	(8,066)	129
<b>Basic earnings/(loss) per share</b>	<b>11</b>	<b>\$0.004</b>	<b>\$(0.012)</b>	<b>\$(0.008)</b>	<b>\$(0.020)</b>
<b>Diluted earnings/(loss) per share</b>	<b>11</b>	<b>\$0.004</b>	<b>\$(0.012)</b>	<b>\$(0.008)</b>	<b>\$(0.020)</b>

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

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS AT JUNE 30, 2012

UNAUDITED

Expressed in US\$'000

	Note	June 30 2012 \$'000	December 31 2011 \$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	345,112	364,109
Intangible assets	13	13,034	13,669
Available for sale investments		2,061	2,061
Deferred income tax assets		5,649	3,683
Trade and other receivables		19,379	24,622
<b>Total non-current assets</b>		<b>385,235</b>	<b>408,144</b>
<b>Current assets</b>			
Trade and other receivables		33,128	19,776
Cash and cash equivalents (including restricted cash)	14	31,252	39,656
<b>Total current assets</b>		<b>64,380</b>	<b>59,432</b>
<b>Total assets</b>		<b>449,615</b>	<b>467,576</b>
<b>Equity</b>			
<b>Attributable to owners of the Company</b>			
Share capital	15	33,270	23,293
Contributed surplus		10,094	15,998
Other reserves		(15,950)	(9,429)
Accumulated deficit		(28,845)	(27,300)
<b>Total equity</b>		<b>(1,431)</b>	<b>2,562</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	17	372,759	390,825
Derivative financial instruments	18	31,465	25,213
Deferred income tax liabilities		2,061	4,038
Provisions and other liabilities		5,438	5,620
<b>Total non-current liabilities</b>		<b>411,723</b>	<b>425,696</b>
<b>Current liabilities</b>			
Trade and other payables		4,341	12,791
Current tax liabilities	10	6,961	4,165
Borrowings	17	17,948	16,030
Derivative financial instruments	18	7,529	5,462
Provisions and other liabilities		2,544	870
<b>Total current liabilities</b>		<b>39,323</b>	<b>39,318</b>
<b>Total liabilities</b>		<b>451,046</b>	<b>465,014</b>
<b>Total equity and liabilities</b>		<b>449,615</b>	<b>467,576</b>

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

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2012

UNAUDITED

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	
<b>Balance at January 1, 2011</b>		<b>16,741</b>	<b>15,295</b>	<b>2,741</b>	-	<b>34,777</b>
Comprehensive income:						
- Loss for the period		-	-	-	(3,645)	(3,645)
- Other comprehensive income:						
Cash flow hedges (net of tax)		-	-	2,110	-	2,110
Currency translation		-	-	1,664	-	1,664
Total comprehensive income		-	-	3,774	(3,645)	129
Transactions with owners in their capacity as owners:						
- Equity-based financing fee		5,596				
- Stock options exercised		956	(396)	-	-	560
- Share-based payments		-	650	-	-	650
<b>Balance at June 30, 2011</b>		<b>23,293</b>	<b>15,549</b>	<b>6,515</b>	<b>(3,645)</b>	<b>41,712</b>
<b>Balance at January 1, 2012</b>		<b>23,293</b>	<b>15,998</b>	<b>(9,429)</b>	<b>(27,300)</b>	<b>2,562</b>
Comprehensive loss:						
- Loss for the period		-	-	-	(1,545)	(1,545)
- Other comprehensive loss:						
Cash flow hedges (net of tax)	9	-	-	(6,379)	-	(6,379)
Currency translation		-	-	(142)	-	(142)
Total comprehensive loss		-	-	(6,521)	(1,545)	(8,066)
Transactions with owners in their capacity as owners:						
- Share issuance	15	9,977	(6,065)	-	-	3,912
- Share-based payments	16	-	161	-	-	161
<b>Balance at June 30, 2012</b>		<b>33,270</b>	<b>10,094</b>	<b>(15,950)</b>	<b>(28,845)</b>	<b>(1,431)</b>

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

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOW

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012

UNAUDITED

Expressed in US\$'000

	Note	Three months ended		Six months ended	
		June 30 2012 \$'000	June 30 2011 \$'000	June 30 2012 \$'000	June 30 2011 \$'000
<b>Cash flow from operating activities</b>					
<b>Income/(loss) for the period</b>		<b>756</b>	<b>(2,124)</b>	<b>(1,545)</b>	<b>(3,645)</b>
Adjustments for:					
Depreciation and amortization	6/7	4,913	4,564	9,989	8,851
Current income tax expense	10	4,493	4,899	3,866	3,235
Deferred income tax recovery	10	(1,533)	(2,593)	(1,354)	(1,208)
Share-based payment expense	7	80	311	159	643
Interest expense	9	4,912	5,023	10,226	8,435
Interest expense relating to interest rate swap contracts	9	1,690	2,075	3,167	3,094
Amortization of transaction costs	9	200	274	413	441
Foreign exchange gain/(loss)	9	409	(129)	211	(558)
Fair value changes of derivative financial instruments	9	148	507	56	(1,448)
Other income (exchange right)	8/19	15	-	(1,388)	-
Interest income		(77)	-	(77)	-
Increase in trade and other receivables		(9,178)	(17,368)	(9,586)	(28,258)
Decrease in trade and other payables		652	(2,650)	(1,574)	(5,096)
Income tax paid		(778)	(576)	(778)	(1,519)
<b>Total cash flow from/(used in) operating activities</b>		<b>6,702</b>	<b>(7,787)</b>	<b>11,785</b>	<b>(17,033)</b>
<b>Cash flow from investing activities</b>					
Purchases of property, plant and equipment		(407)	(30,865)	(518)	(31,796)
Purchases of intangible assets		-	(906)	-	(906)
<b>Total cash flow used in investing activities</b>		<b>(407)</b>	<b>(31,771)</b>	<b>(518)</b>	<b>(32,702)</b>
<b>Cash flow from financing activities</b>					
Interest paid	17	(6,237)	(2,739)	(10,660)	(7,230)
Interest paid relating to interest rate swap arrangements		(1,059)	(1,033)	(2,882)	(3,069)
Interest income		77	-	77	-
Repayment of borrowings	17	(4,009)	(83,146)	(7,545)	(85,579)
Proceeds from borrowings	17	-	139,280	2,242	141,721
Proceeds from the issuance of shares	16	-	191	-	560
<b>Total cash flow (used in)/from financing activities</b>		<b>(11,228)</b>	<b>52,553</b>	<b>(18,768)</b>	<b>46,403</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(4,933)</b>	<b>12,995</b>	<b>(7,501)</b>	<b>(3,332)</b>
Effect of exchange rate differences		(1,993)	624	(903)	3,532
Cash and cash equivalents (including restricted cash) at the beginning of the period		<b>38,178</b>	31,605	<b>39,656</b>	45,024
<b>Cash and cash equivalents (including restricted cash) at the end of the period</b>		<b>31,252</b>	<b>45,224</b>	<b>31,252</b>	<b>45,224</b>

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

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012

UNAUDITED

Expressed in US\$'000 unless otherwise stated

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

The Company's Board of Directors approved these condensed consolidated interim financial statements authorized for issue on August 14, 2012.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### (a) BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared in accordance with *IAS 34, Interim Financial Reporting*, using accounting policies consistent with International Financial Reporting Standards ("IFRS"). These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2011.

These condensed consolidated interim financial statements have been drawn up on the basis of accounting policies, methods of computation and presentation consistent with those applied in the audited consolidated financial statements for the year ended December 31, 2011.

#### (b) GOING CONCERN

The Company's condensed consolidated interim financial statements for the three and six months ended June 30, 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 June 30, 2012, the Group had cash and cash equivalents of \$31.3 million (December 31, 2011: \$39.7 million) and positive working capital (i.e., current assets less current liabilities) of \$25.1 million (December 31, 2011: \$20.1 million). During the six months ended June 30, 2012, the Group incurred a net loss of \$1.5 million (2011: loss of \$3.6 million). However, the Company's management is confident that the Group will be able to fund its working capital requirements for at least twelve months from the date of these condensed consolidated interim financial statements.

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

These condensed consolidated interim financial statements for the three and six months ended June 30, 2012, do not include the adjustments that would result if the Group was unable to continue as a going concern.

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

During the three and six months ended June 30, 2012, the Group did not adopt any new standards and interpretations or amendments thereto applicable for financial periods beginning on or after January 1, 2012.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012

UNAUDITED

Expressed in US\$'000 unless otherwise stated

### 3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

There has been no change to the critical accounting estimates and assumptions used in the preparation of the Company's condensed consolidated interim financial statements for the three and six months ended June 30, 2012, from those disclosed in the notes to the Company's audited consolidated financial statements for the year ended December 31, 2011.

### 4. SEGMENT REPORTING

The Company's management has determined the operating segments based on reports reviewed by the Board of Directors used to make strategic decisions. The Board of Directors consider reportable segments from a products and services perspective and measure performance based on earnings before interest, tax, depreciation and amortization ("EBITDA"). During 2011, the Board of Directors decided to include the Group's oil and gas investments within corporate and unallocated as these investments do not generate periodic income or loss. As a result, the Company's management has identified one reportable segment, the renewable energy segment, which includes the Group's solar power projects. All other revenues, expenses, assets and liabilities are included within corporate and unallocated, which includes the Group's oil and gas investments and all corporate overhead expenditure.

The Group's electricity is sold to the Italian state-owned company Gestore Servizi Energetici ("GSE") and local utilities, Enel S.p.A. and Terna S.p.A. At June 30, 2012 and 2011, all of the Group's solar power projects were located in Italy.

The following is an analysis of the Group's segment revenues, EBITDA and results for the three and six months ended June 30, 2012:

Three months ended June 30:	2012			2011		
	Renewable energy \$'000	Corporate and unallocated \$'000	Total \$'000	Renewable energy \$'000	Corporate and unallocated \$'000	Total \$'000
Revenue	19,198	-	19,198	17,829	-	17,829
Operating expenses <sup>(1)</sup>	(862)	-	(862)	(419)	-	(419)
General and administrative expenses <sup>(1)</sup>	(753)	(2,172)	(2,925)	(611)	(3,341)	(3,952)
Other income/(expenses)	441	147	588	(568)	29	(539)
<b>EBITDA</b>	<b>18,024</b>	<b>(2,025)</b>	<b>15,999</b>	<b>16,231</b>	<b>(3,312)</b>	<b>12,919</b>
Depreciation and amortization	(4,846)	(67)	(4,913)	(4,454)	(110)	(4,564)
Finance income	81	41	122	141	179	320
Finance costs	(5,470)	(2,022)	(7,492)	(6,184)	(2,309)	(8,493)
<b>Income/(loss) before income tax</b>	<b>7,789</b>	<b>(4,073)</b>	<b>3,716</b>	<b>5,734</b>	<b>(5,552)</b>	<b>182</b>
Income tax expense	(2,942)	(18)	(2,960)	(2,173)	(133)	(2,306)
<b>Net income/(loss)</b>	<b>4,847</b>	<b>(4,091)</b>	<b>756</b>	<b>3,561</b>	<b>(5,685)</b>	<b>(2,124)</b>

Note:

(1) Operating expenses and general and administrative expenses shown in the table above, exclude depreciation and amortization expenses (Note 6/7).



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012

UNAUDITED

Expressed in US\$'000 unless otherwise stated

### 4. SEGMENT REPORTING (CONTINUED)

Six months ended June 30:

	2012			2011		
	Renewable energy \$'000	Corporate and unallocated \$'000	Total \$'000	Renewable energy \$'000	Corporate and unallocated \$'000	Total \$'000
<b>Revenue</b>	<b>29,936</b>	-	<b>29,936</b>	<b>25,106</b>	-	<b>25,106</b>
Operating expenses <sup>(1)</sup>	(1,453)	-	(1,453)	(1,029)	-	(1,029)
General and administrative expenses <sup>(1)</sup>	(1,108)	(4,220)	(5,328)	(1,303)	(6,219)	(7,522)
Other income	441	1,550	1,991	1,350	36	1,386
<b>EBITDA</b>	<b>27,816</b>	<b>(2,670)</b>	<b>25,146</b>	<b>24,124</b>	<b>(6,183)</b>	<b>17,941</b>
Depreciation and amortization	(9,852)	(137)	(9,989)	(8,677)	(174)	(8,851)
Finance income	578	4	582	1,517	608	2,125
Finance costs	(11,098)	(3,674)	(14,772)	(9,565)	(3,268)	(12,833)
<b>Income/(loss) before income tax</b>	<b>7,444</b>	<b>(6,477)</b>	<b>967</b>	<b>7,399</b>	<b>(9,017)</b>	<b>(1,618)</b>
Income tax expense	(2,482)	(30)	(2,512)	(1,924)	(103)	(2,027)
<b>Net income/(loss)</b>	<b>4,962</b>	<b>(6,507)</b>	<b>(1,545)</b>	<b>5,475</b>	<b>(9,120)</b>	<b>(3,645)</b>

Note:

(1) Operating expenses and general and administrative expenses shown in the table above, exclude depreciation and amortization expenses (Note 6/7).

The following is an analysis of the Group's assets and liabilities at June 30, 2012 and December 31, 2011:

	June 30, 2012			December 31, 2011		
	Renewable energy \$'000	Corporate and unallocated \$'000	Total \$'000	Renewable energy \$'000	Corporate and unallocated \$'000	Total \$'000
Property, plant and equipment	344,842	270	345,112	363,790	319	364,109
Intangible assets	10,245	2,789	13,034	10,740	2,929	13,669
Available for sale investments	-	2,061	2,061	-	2,061	2,061
Cash and cash equivalents	23,658	7,594	31,252	30,135	9,521	39,656
Other assets	54,976	3,180	58,156	44,498	3,583	48,081
<b>Total assets</b>	<b>433,721</b>	<b>15,894</b>	<b>449,615</b>	<b>449,163</b>	<b>18,413</b>	<b>467,576</b>
Borrowings	314,349	76,358	390,707	328,465	78,390	406,855
Trade and other payables	1,879	2,462	4,341	3,072	9,719	12,791
Other liabilities	51,423	4,575	55,998	39,554	5,814	45,368
<b>Total liabilities</b>	<b>367,651</b>	<b>83,395</b>	<b>451,046</b>	<b>371,091</b>	<b>93,923</b>	<b>465,014</b>

### 5. REVENUE

	Three months ended		Six months ended	
	June 30 2012 \$'000	June 30 2011 \$'000	June 30 2012 \$'000	June 30 2011 \$'000
Feed-in tariff ("FIT") revenue	15,872	14,641	24,527	20,611
Market Price revenue	3,326	3,188	5,409	4,495
<b>Total revenue</b>	<b>19,198</b>	<b>17,829</b>	<b>29,936</b>	<b>25,106</b>

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. The Market Price is 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.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012

UNAUDITED

Expressed in US\$'000 unless otherwise stated

### 6. OPERATING EXPENSES

	Three months ended		Six months ended	
	June 30	June 30	June 30	June 30
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Operation and maintenance ("O&M") costs	386	69	558	214
Depreciation and amortization (operating solar power projects)	4,846	4,477	9,852	8,700
Insurance	118	103	223	302
Land lease	48	19	99	37
Other operating expenses	310	228	573	476
<b>Total operating expenses</b>	<b>5,708</b>	<b>4,896</b>	<b>11,305</b>	<b>9,729</b>

O&M costs of \$0.4 million (2011: \$0.1 million) and \$0.6 million (2011: \$0.2 million) for the three and six months ended June 30, 2012, respectively, 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.

### 7. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended		Six months ended	
	June 30	June 30	June 30	June 30
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Salaries and benefits	1,056	1,673	2,286	3,117
Board fees	60	60	120	120
Share-based payment expense (non-cash item) <a href="#">Note 16</a>	80	311	159	643
Corporate and professional fees	582	667	1,058	1,326
Depreciation and amortization (corporate assets)	67	87	137	151
Office, listing, filing and other general and administrative expenses	1,147	1,241	1,705	2,316
<b>Total general and administrative expenses</b>	<b>2,992</b>	<b>4,039</b>	<b>5,465</b>	<b>7,673</b>

### 8. OTHER INCOME/(EXPENSES)

	Three months ended		Six months ended	
	June 30	June 30	June 30	June 30
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Exchange right (non-cash compensation) <a href="#">Note 19</a>	-	-	1,403	-
Liquidation damages	-	247	-	2,189
Engineering, procurement and construction ("EPC") cancellation fee	-	(580)	-	(580)
Other (net)	588	(206)	588	(223)
<b>Total other income/(expenses)</b>	<b>588</b>	<b>(539)</b>	<b>1,991</b>	<b>1,386</b>

During the six months ended June 30, 2012, 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, Share-based Payments* ("IFRS 2").

During the three and six months ended June 30, 2011, the Group recognized \$0.2 million and \$2.2 million, respectively, of liquidation damages related to delays encountered by the EPC contractors responsible for the construction of two of Group's solar power projects (Etrion Lazio and SVE). In addition during the three and six months ended June 30, 2011, the Group recognized an expense of \$0.6 million for the EPC contract cancellation fee related to the construction of the Helios ITA-3 solar power project.

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### 9. FINANCE INCOME AND COSTS

	Three months ended		Six months ended	
	June 30 2012 \$'000	June 30 2011 \$'000	June 30 2012 \$'000	June 30 2011 \$'000
<b>Finance income:</b>				
Changes in fair values of derivative financial instruments:				
- Interest rate swap contracts	-	-	416	804
- Ineffective portion reclassified from other comprehensive income	81	88	89	644
Foreign exchange gain	-	129	-	558
Other finance income	41	103	77	119
<b>Total finance income</b>	<b>122</b>	<b>320</b>	<b>582</b>	<b>2,125</b>
<b>Finance costs:</b>				
Interest rate expense:				
- Credit facilities and non-recourse loans	(3,181)	(2,928)	(6,725)	(5,524)
- Interest rate swap contracts associated with non-recourse loans	(1,690)	(2,075)	(3,167)	(3,094)
- Corporate bond <a href="#">Note 17/19</a>	(1,731)	(1,515)	(3,501)	(1,515)
- Credit facility with related party (Lundin Services BV) <a href="#">Note 17/19</a>	-	(616)	-	(1,505)
- Credit facility with related party (Lundin family) <a href="#">Note 19</a>	-	(342)	-	(342)
- Amortization of transaction costs	(200)	(285)	(413)	(487)
Changes in fair values of derivative financial instruments:				
- De-designated portion reclassified from other comprehensive income	(124)	-	(383)	-
- Ineffective portion reclassified from other comprehensive income	-	(87)	(73)	-
- Interest rate swap contracts	(105)	(508)	(105)	-
- Foreign exchange loss	(409)	-	(211)	-
Other finance costs	(52)	(524)	(194)	(864)
<b>Total finance costs before deducting amounts capitalized</b>	<b>(7,492)</b>	<b>(8,880)</b>	<b>(14,772)</b>	<b>(13,331)</b>
Amounts capitalized on qualifying assets	-	387	-	498
<b>Total finance costs</b>	<b>(7,492)</b>	<b>(8,493)</b>	<b>(14,772)</b>	<b>(12,833)</b>
<b>Net finance costs</b>	<b>(7,370)</b>	<b>(8,173)</b>	<b>(14,190)</b>	<b>(10,708)</b>

The Group has entered into five credit facilities that are hedged using interest rate swap contracts in order to finance the construction of its operating solar power projects in Italy. Refer to [Note 17](#) and [Note 18](#) for further details on the Group's credit facilities and derivative financial instruments.

During the six months ended June 30, 2012, the Group recognized a net fair value gain of \$0.3 million (2011: \$nil) associated with the market value of an interest rate swap contract that was de-designated during the period. In addition, during the three and six months ended June 30, 2012, the Group reclassified \$0.2 million (2011: \$nil) and \$0.4 million (2011: \$nil), respectively, from other reserves representing previous fair value losses associated with an interest rate swap contract de-designated for hedge accounting during the periods. During the three and six months ended June 30, 2011, the Group recognized a net fair value loss of \$0.5 million and a fair value gain of \$0.8 million, respectively, associated with interest rate swap contracts classified at fair value through profit and loss.

During the three and six months ended June 30, 2012, the Group recognized a net fair value gain of \$0.1 million (2011: net gain of \$1,000) and \$16,000 (2011: net fair value gain of \$0.6 million) relating to the ineffective portion of cash flow hedges reclassified from other comprehensive income. In addition, for the three and six months ended June 30, 2012, a net fair value loss of \$4.8 million (2011: net fair value loss of \$2.4 million) and \$6.4 million (2011: net fair value gain of \$2.1 million), respectively, net of tax, was recognized in other comprehensive income related to the effective portion of the Group's interest rate swap contracts.



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### 12. PROPERTY, PLANT AND EQUIPMENT

	Land \$'000	Solar power projects \$'000	Equipment and furniture \$'000	Total \$'000
<b>Cost:</b>				
<b>At December 31, 2011</b>	<b>12,952</b>	<b>373,506</b>	<b>1,102</b>	<b>387,560</b>
Additions	-	485	33	518
Disposals	-	-	(2)	(2)
Exchange differences	(349)	(10,336)	(29)	(10,714)
<b>At June 30, 2012</b>	<b>12,603</b>	<b>363,655</b>	<b>1,104</b>	<b>377,362</b>
<b>Accumulated depreciation:</b>				
<b>At December 31, 2011</b>	-	<b>22,671</b>	<b>780</b>	<b>23,451</b>
Charge for the period	-	9,647	67	9,714
Exchange differences	-	(893)	(22)	(915)
<b>At June 30, 2012</b>	-	<b>31,425</b>	<b>825</b>	<b>32,250</b>
<b>Net book value:</b>				
At December 31, 2011	12,952	350,835	322	364,109
At June 30, 2012	12,603	332,230	279	345,112

### 13. INTANGIBLE ASSETS

	Goodwill \$'000	Licenses and permits \$'000	Other \$'000	Total \$'000
<b>Cost:</b>				
<b>At December 31, 2011</b>	<b>1,700</b>	<b>12,699</b>	<b>33</b>	<b>14,432</b>
Exchange differences	(46)	(343)	(1)	(390)
<b>At June 30, 2012</b>	<b>1,654</b>	<b>12,356</b>	<b>32</b>	<b>14,042</b>
<b>Accumulated amortization:</b>				
<b>At December 31, 2011</b>	-	<b>763</b>	-	<b>763</b>
Charge of the period	-	275	-	275
Exchange differences	-	(30)	-	(30)
<b>At June 30, 2012</b>	-	<b>1,008</b>	-	<b>1,008</b>
<b>Net book value:</b>				
At December 31, 2011	1,700	11,936	33	13,669
At June 30, 2012	1,654	11,348	32	13,034

### 14. 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.

	June 30 2012 \$'000	December 31 2011 \$'000
Cash at banks	31,252	39,656
<b>Total</b>	<b>31,252</b>	<b>39,656</b>

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

	June 30 2012 \$'000	December 31 2011 \$'000
Unrestricted cash and cash equivalents	7,935	10,004
Cash and cash equivalents restricted to solar power projects	23,317	29,652
<b>Total</b>	<b>31,252</b>	<b>39,656</b>

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

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### 14. CASH AND CASH EQUIVALENTS (INCLUDING RESTRICTED CASH) (CONTINUED)

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.

### 15. SHARE CAPITAL

	Number of shares outstanding	Share capital \$'000
<b>At December 31, 2011</b>	<b>187,536,120</b>	<b>23,293</b>
Share issuance <a href="#">Note 19</a>	18,210,299	9,977
<b>At June 30, 2012</b>	<b>205,746,419</b>	<b>33,270</b>

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, during the six months ended June 30 2012, increasing the Company's equity interest in SRH to 100%.

### 16. SHARE-BASED PAYMENTS

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

During the three and six months ended June 30, 2012, the Group recognized share-based payment expenses of \$0.1 million (2011: \$0.3 million) and \$0.2 million (2011: \$0.6 million), respectively, related to its stock option awards scheme.

A summary of the Company's outstanding stock options at June 30, 2012, is as follows:

	Number of share options	Weighted average exercise price CAD\$
<b>At December 31, 2011</b>	<b>4,367,200</b>	<b>0.74</b>
Granted	647,000	0.52
Cancelled	(598,200)	1.14
<b>At June 30, 2012</b>	<b>4,416,000</b>	<b>0.65</b>
<b>Stock options exercisable:</b>		
At December 31, 2011	2,482,399	0.82
At June 30, 2012	2,706,332	0.68

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### 17. BORROWINGS

	Corporate borrowings \$'000	Non-recourse project loans \$'000	Total \$'000
<b>At January 1, 2011</b>	<b>75,224</b>	<b>273,733</b>	<b>348,957</b>
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)
<b>At December 31, 2011</b>	<b>78,392</b>	<b>328,463</b>	<b>406,855</b>
- Current portion	1,398	14,632	16,030
- Non-current portion	76,994	313,831	390,825
<b>At January 1, 2012</b>	<b>78,392</b>	<b>328,463</b>	<b>406,855</b>
Proceeds from loans	-	2,242	2,242
Repayment of loans and interest	(3,535)	(14,670)	(18,205)
Accrued interest	3,501	6,725	10,226
Amortization of transaction costs	85	326	411
Exchange difference	(2,082)	(8,740)	(10,822)
<b>At June 30, 2012</b>	<b>76,361</b>	<b>314,346</b>	<b>390,707</b>
- Current portion	1,360	16,588	17,948
- Non-current portion	75,001	297,758	372,759

At June 30, 2012 and December 31, 2011, the Group was not in breach of any of the imposed operational and financial covenants associated with its corporate borrowings and non-recourse project loans.

#### (a) CORPORATE BORROWINGS

At June 30, 2012, the Group had \$75.6 million (€60 million) of corporate bonds outstanding in the Norwegian bond market issued by the Company in April 2011 at 9% annual interest with a 4-year maturity. At June 30, 2012, the amount outstanding, including accrued interest and net of transaction costs, was \$76.4 million (December 31, 2011: \$78.4 million).

#### (b) NON-RECOURSE PROJECT LOANS

The non-recourse project loans (i.e., facilities to which the lending bank is only entitled to the assets from the associated project) held by the Group's Italian subsidiaries, obtained to finance the construction of the Group's solar power projects, mature at various dates between 2024 and 2028 and bear annual interest rates of Euribor plus a margin, ranging from 1.35% to 3.1%. In order to secure the Group's non-recourse project loans, the Group pledged as collateral the fixed assets (i.e., solar power projects and land) associated with the solar power projects financed by these facilities. Repayment of these facilities is secured principally by the proceeds from the sale of electricity under contracts entered into by the Group with the GSE and local utilities (Enel S.p.A. and Terna S.p.A.) and the proceeds from the collection of input VAT accumulated for construction costs.

### 18. DERIVATIVE FINANCIAL INSTRUMENTS

	June 30 2012 \$'000	December 31 2011 \$'000
<b>Derivative financial liabilities:</b>		
Interest rate swap contracts (cash flow hedges)		
- Current portion	7,529	5,462
- Non-current portion	31,465	25,213
<b>Total derivative financial liabilities</b>	<b>38,994</b>	<b>30,675</b>

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 June 30, 2012 and December 31, 2011, the Group had seven derivative financial instruments that qualified for hedge accounting and no derivative financial instruments classified at fair value through profit and loss. Refer to [Note 9](#) for further details relating to fair value movements recognized during the periods.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

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### 19. RELATED PARTIES

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

#### (a) RELATED PARTY TRANSACTIONS

During the three and six months ended June 30, 2012 and 2011, the Group entered into the following transactions with related parties:

	Three months ended		Six months ended	
	June 30 2012 \$'000	June 30 2011 \$'000	June 30 2012 \$'000	June 30 2011 \$'000
<b>General and administrative expenses</b>				
Lundin Services BV	14	11	14	16
Lundin Petroleum SA	-	5	-	36
<b>Finance costs</b>				
Lundin Services BV:				
- Interest expense	-	616	-	1,505
- Loan transaction costs	-	81	-	114
- Interest expense associated with corporate bond	444	228	668	228
- Transaction costs associated with corporate bond	8	-	14	-
Lundin family:				
- Interest expense associated with corporate bond	875	385	1,318	385
- Transaction costs associated with corporate bond	16	-	27	-
- Amortization of prepaid interest associated with bridge loan (capitalized)	-	342	-	342
<b>Total transactions with related parties</b>	<b>1,357</b>	<b>1,668</b>	<b>2,041</b>	<b>2,626</b>

At June 30, 2012, and December 31, 2011, the amounts outstanding to related parties were as follows:

	June 30 2012 \$'000	December 31 2011 \$'000
<b>Current liabilities:</b>		
Lundin Services BV:		
- General and administrative expenses	3	3
- Participation in corporate bond	172	177
Lundin family (participation in corporate bond)	340	349
<b>Total current liabilities</b>	<b>515</b>	<b>529</b>
<b>Non-current liabilities:</b>		
Lundin Services BV (participation in corporate bond)	9,500	9,752
Lundin family (participation in corporate bond)	18,750	19,248
<b>Total non-current liabilities</b>	<b>28,250</b>	<b>29,000</b>
<b>Total amounts outstanding to related parties</b>	<b>28,765</b>	<b>29,529</b>

There were no amounts outstanding from related parties at June 30, 2012, and December 31, 2011.

#### Lundin Services BV

The Group receives professional services (i.e., technical and legal) 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 \$11.2 million (€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 \$1.6 million (€1.3 million) of the corporate bonds, reducing their position to \$9.6 million (€7.6 million) at June 30, 2012 (December 31, 2011: \$9.9 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.



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

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### 19. RELATED PARTIES (CONTINUED)

#### (a) RELATED PARTY TRANSACTIONS (CONTINUED)

##### Lundin family

In April 2011, investment companies associated with the Lundin family subscribed for \$18.9 million (€15 million) of the corporate bonds issued by the Company at 9% annual interest with a 4-year maturity.

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

##### Lundin Petroleum SA

The Group receives professional services (i.e., administrative support) 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. The remuneration of key management personnel during the three and six months ended June 30, 2012 and 2011 is as follows:

	Three months ended		Six months ended	
	June 30 2012 \$'000	June 30 2011 \$'000	June 30 2012 \$'000	June 30 2011 \$'000
Salaries and short-term benefits	181	230	397	438
Pension costs	47	41	84	73
Termination payments	62	-	62	-
Board of Directors (non-executive directors)	60	60	120	120
Share-based payment	96	402	133	483
<b>Total</b>	<b>446</b>	<b>733</b>	<b>796</b>	<b>1,114</b>

At June 30, 2012, and December 31, 2011, the amounts outstanding to key management personnel were as follows:

	June 30	December 31
	2012 \$'000	2011 \$'000
Mr. Northland's guaranteed floor	-	5,176
Board of Directors (non-executive directors)	60	60
Other (bonus payable and pension costs payable)	62	278
<b>Total</b>	<b>122</b>	<b>5,514</b>

There were no amounts outstanding from key management personnel at June 30, 2012 and December 31, 2011.

Upon the acquisition of SRH in September 2009, the Company entered into a shareholders' agreement with Mr. Northland, who previously 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 such, 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.

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### 19. RELATED PARTIES (CONTINUED)

#### (b) KEY MANAGEMENT PERSONNEL (CONTINUED)

##### *Mr. Northland's exchange right (continued)*

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 at June 30, 2012, by \$10 million. In addition, during the six months ended June 30, 2012, the Group recognized other income of \$1.4 million related to the 10% equity interest in the Company's subsidiary, SRH, previously held by Mr. Northland, to adjust the share-based payment expense previously recognized by the Group for the portion of the performance condition not met at conversion in accordance with IFRS 2. During the three and six months ended June 30, 2011, the Group recognized a share-based payment expense of \$0.1 million and \$0.2 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 8 and 15](#)