etrion

Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2012

(Unaudited)

CONTENTS

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the three months ended March 31, 2012

Unaudited

Expressed in US$'000

	Note	March 31 2012 $'000	March 31 2011 $'000
Revenue	5	10,738	7,277
Operating expenses	6	(5,597)	(4,833)
Gross profit		**5,141**	**2,444**
General and administrative expenses	7	(2,473)	(3,634)
Other income	8	1,403	1,925
Operating profit		**4,071**	**735**
Finance income	9	664	2,401
Finance costs	9	(7,484)	(4,936)
Net finance costs		**(6,820)**	**(2,535)**
Loss before income tax		**(2,749)**	**(1,800)**
Income tax recovery	10	448	279
Loss for the period		**(2,301)**	**(1,521)**
Other comprehensive (loss)/income:			
(Loss)/gain on currency translation		(545)	1,402
(Loss)/gain on cash flow hedges (net of tax)		(1,568)	4,524
Total other comprehensive (loss)/income		**(2,113)**	**5,926**
Total comprehensive (loss)/income for the period		**(4,414)**	**4,405**
Loss attributable to:			
Owners of the parent company		(2,301)	(1,521)
Total comprehensive (loss)/income attributable to:			
Owners of the parent company		(4,414)	4,405
Basic and diluted loss per share	11	**$(0.01)**	**$(0.01)**

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

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at March 31, 2012
Unaudited
Expressed in US$'000

	Note	March 31 2012 $'000	December 31 2011 $'000
Assets			
Non-current assets			
Property, plant and equipment	12	370,680	364,109
Intangible assets	13	13,945	13,669
Available for sale investments		2,061	2,061
Deferred income tax assets		3,634	3,683
Trade and other receivables		25,431	24,622
Total non-current assets		**415,751**	**408,144**
Current assets			
Trade and other receivables		21,502	19,776
Cash and cash equivalents (including restricted cash)	14	38,178	39,656
Total current assets		**59,680**	**59,432**
Total assets		**475,431**	**467,576**
Equity			
Attributable to owners of the Company			
Share capital	15	33,270	23,293
Contributed surplus		10,012	15,998
Other reserves		(11,542)	(9,429)
Accumulated deficit		(29,601)	(27,300)
Total equity		**2,139**	**2,562**
Liabilities			
Non-current liabilities			
Borrowings	17	400,049	390,825
Derivative financial instruments	18	26,176	25,213
Deferred income tax liabilities		3,486	4,038
Provisions and other liabilities		5,809	5,620
Total non-current liabilities		**435,520**	**425,696**
Current liabilities			
Trade and other payables		5,349	12,791
Current tax liabilities	10	4,347	4,165
Borrowings	17	19,867	16,030
Derivative financial instruments	18	7,339	5,462
Provisions and other liabilities		870	870
Total current liabilities		**37,772**	**39,318**
Total liabilities		**473,292**	**465,014**
Total equity and liabilities		**475,431**	**467,576**

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the three months ended March 31, 2012

Unaudited

Expressed in US$'000

		Attributable to owners of the company				
	Note	Share capital $'000	Contributed surplus $'000	Other reserves $'000	Accumulated deficit $'000	Total equity $'000
Balance at January 1, 2011		**16,741**	**15,295**	**2,741**	**-**	**34,777**
Comprehensive income:						
- Loss for the period		-	-	-	(1,521)	(1,521)
- Other comprehensive income:						
Cash flow hedges (net of tax)		-	-	4,524	-	4,524
Currency translation		-	-	1,402	-	1,402
Total comprehensive income		-	-	5,926	(1,521)	4,405
Transactions with owners in their capacity as owners:						
- Stock options exercised		620	(251)	-	-	369
- Share-based payments		-	330	-	-	330
Balance at March 31, 2011		**17,361**	**15,374**	**8,667**	**(1,521)**	**39,881**
Balance at January 1, 2012		**23,293**	**15,998**	**(9,429)**	**(27,300)**	**2,562**
Comprehensive loss:						
- Loss for the period		-	-	-	(2,301)	(2,301)
- Other comprehensive loss:						
Cash flow hedges (net of tax)	9	-	-	(1,568)	-	(1,568)
Currency translation		-	-	(545)	-	(545)
Total comprehensive loss		-	-	(2,113)	(2,301)	(4,414)
Transactions with owners in their capacity as owners:						
- Share issuance	15	9,977	(6,065)	-	-	3,912
- Share-based payments	16	-	79	-	-	79
Balance at March 31, 2012		**33,270**	**10,012**	**(11,542)**	**(29,601)**	**2,139**

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOW

For the three months ended March 31, 2012

Unaudited

Expressed in US$'000

	Note	March 31 2012 $'000	March 31 2011 $'000
Cash flow from operating activities			
Loss for the period		**(2,301)**	**(1,521)**
Adjustments for:			
Depreciation and amortization	6/7	5,076	4,287
Current income tax recovery	10	(627)	(1,664)
Deferred income tax expense	10	179	1,385
Share-based payment expense	7	79	332
Interest expense	9	5,314	3,412
Interest expense relating to interest rate swap contracts	9	1,477	1,019
Amortization of transaction costs	9	213	167
Foreign exchange loss/(gain)	9	(198)	(429)
Changes in fair values of derivative financial instruments	9	(92)	(1,955)
Other income (exchange right)	8/19	(1,403)	-
Increase in trade and other receivables		(411)	(10,889)
Decrease in trade and other payables		(2,225)	(2,446)
Income tax paid		-	(943)
Total cash flow from/(used in) operating activities		**5,081**	**(9,245)**
Cash flow from investing activities			
Purchases of property, plant and equipment		(111)	(931)
Total cash flow used in investing activities		**(111)**	**(931)**
Cash flow from financing activities			
Interest paid	17	(4,421)	(4,491)
Interest paid relating to interest rate swap arrangements		(1,821)	(2,036)
Repayment of borrowings	17	(3,538)	(2,433)
Proceeds from borrowings	17	2,242	2,441
Proceeds from the issuance of shares	16	-	369
Total cash flow used in financing activities		**(7,538)**	**(6,150)**
Net (decrease) in cash and cash equivalents		**(2,568)**	**(16,326)**
Effect of exchange rate differences		1,090	2,907
Cash and cash equivalents (including restricted cash) at the beginning of the period		39,656	45,024
Cash and cash equivalents (including restricted cash) at the end of the period		**38,178**	**31,605**

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

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 V62 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 May 9, 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 months ended March 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 March 31, 2012, the Group had cash and cash equivalents of $38.2 million (December 31, 2011: $39.7 million) and positive working capital (i.e., current assets less current liabilities) of $21.9 million (December 31, 2011: $20.1 million). During the three months ended March 31, 2012, the Group incurred a net loss of $2.3 million (2011: net loss of $1.5 million). 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 need to delay discretionary expenditures.

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

2. Summary of significant accounting policies (continued)

(c) Changes in accounting policies and disclosures

During the three months ended March 31, 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.

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 could 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 from those disclosed in the notes to the Company's 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 considers reportable segments from a products and services perspective and measures 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 March 31, 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 months ended March 31, 2012:

	Renewable energy $'000	**Corporate and unallocated $'000**	**Total $'000**
Revenue	10,738	-	10,738
Operating expenses (excluding depreciation and amortization)	(591)	-	(591)
General and administrative expenses (excluding depreciation and amortization)	(355)	(2,048)	(2,403)
Other income	-	1,403	1,403
Segment EBITDA	**9,792**	**(645)**	**9,147**
Depreciation and amortization	(5,006)	(70)	(5,076)
Finance income	664	-	664
Finance costs	(5,634)	(1,850)	(7,484)
Loss before income tax	**(184)**	**(2,565)**	**(2,749)**
Income tax recovery/(expense)	460	(12)	448
Income/(loss) for the period	**276**	**(2,577)**	**(2,301)**

4. Segment reporting (continued)

The following is an analysis of the Group's segment revenues, EBITDA and results for the three months ended March 31, 2011:

	Renewable energy $'000	Corporate and unallocated $'000	Total $'000
Revenue	7,277	-	7,277
Operating expenses (excluding depreciation and amortization)	(610)	-	(610)
General and administrative expenses (excluding depreciation and amortization)	(692)	(2,878)	(3,570)
Other income net	1,918	7	1,925
Segment EBITDA	**7,893**	**(2,871)**	**5,022**
Depreciation and amortization	(4,223)	(64)	(4,287)
Finance income	1,972	429	2,401
Finance costs	(3,977)	(959)	(4,936)
Income/(loss) before income tax	**1,665**	**(3,465)**	**(1,800)**
Income tax recovery	249	30	279
Income/(loss) for the period	**1,914**	**(3,435)**	**(1,521)**

The following is an analysis of the Group's assets and liabilities at March 31, 2012:

	Renewable energy $'000	Corporate and unallocated $'000	Total $'000
Property, plant and equipment	370,380	300	370,680
Intangible assets	10,955	2,990	13,945
Available for sale investments	-	2,061	2,061
Cash and cash equivalents (including restricted cash)	29,126	9,052	38,178
Other assets	46,530	4,037	50,567
Total assets	**456,991**	**18,440**	**475,431**
Borrowings	337,154	82,762	419,916
Trade and other payables	2,132	3,217	5,349
Other liabilities	41,348	6,679	48,027
Total liabilities	**380,634**	**92,658**	**473,292**

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

	Renewable energy $'000	Corporate and unallocated $'000	Total $'000
Property, plant and equipment	363,790	319	364,109
Intangible assets	10,740	2,929	13,669
Available for sale investments	-	2,061	2,061
Cash and cash equivalents (including restricted cash)	30,135	9,521	39,656
Other assets	44,498	3,583	48,081
Total assets	**449,163**	**18,413**	**467,576**
Borrowings	328,465	78,390	406,855
Trade and other payables	3,072	9,719	12,791
Other liabilities	39,554	5,814	45,368
Total liabilities	**371,091**	**93,923**	**465,014**

5. Revenue

	March 31 2012 $'000	March 31 2011 $'000
Feed-in tariff ("FiT") revenue	8,655	5,970
Market Price revenue	2,083	1,307
Total revenue	**10,738**	**7,277**

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). Production and pricing information is based on estimates until confirmed by the local utilities, Enel S.p.A. and Terna S.p.A.

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

6. Operating expenses

	March 31 2012 $'000	March 31 2011 $'000
Operation and maintenance ("O&M") costs	172	145
Depreciation and amortization (operating solar power projects)	5,006	4,223
Insurance	105	199
Land lease	51	18
Other operating expenses	263	248
Total operating expenses	**5,597**	**4,833**

O&M costs of $0.2 million (2011: $0.1 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 O&M services to third parties.

7. General and administrative expenses

	March 31 2012 $'000	March 31 2011 $'000
Salaries and benefits	1,230	1,444
Board fees	60	60
Corporate and professional fees	476	659
Share-based payment expense (non-cash item) Note 16	79	332
Depreciation and amortization (corporate assets)	70	64
Office, listing, filing and other general and administrative expenses	558	1,075
Total general and administrative expenses	**2,473**	**3,634**

8. Other income

	March 31 2012 $'000	March 31 2011 $'000
Exchange right (non-cash compensation) Note 19	1,403	-
Liquidation damages	-	1,925
Total other income	**1,403**	**1,925**

During the three months ended March 31, 2012, the Group recognized other income of $1.4 million related to the 10% equity interest in the Company's subsidiary, Solar Resources Holding Sarl ("SRH"), previously held by Marco A. Northland, the Company's Chief Executive Officer and director ("Mr. Northland"), 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 months ended March 31, 2011, the Group recognized $1.9 million 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).

9. Finance income and costs

	March 31 2012 $'000	March 31 2011 $'000
Finance income:		
Changes in fair values of derivative financial instruments:		
- Interest rate swap contracts	422	1,312
- Ineffective portion reclassified from other comprehensive income	8	643
Foreign exchange gain	198	429
Other finance income	36	17
Total finance income	**664**	**2,401**
Finance costs:		
Interest rate expense:		
- Credit facilities and non-recourse loans	(3,544)	(2,598)
- Credit facility with related party (Lundin Services BV) Note 17 and 19	-	(890)
- Corporate bond Note 17 and 19	(1,770)	-
- Interest rate swap contracts	(1,477)	(1,019)
- Amortization of transaction costs	(213)	(202)
Changes in fair values of derivative financial instruments:		
- De-designated portion reclassified from other comprehensive income	(259)	-
- Ineffective portion reclassified from other comprehensive income	(79)	-
Other finance costs	(142)	(338)
Amounts capitalized on qualifying assets	-	111
Total finance costs	**(7,484)**	**(4,936)**
Net finance costs	**(6,820)**	**(2,535)**

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.

9. Finance income and costs (continued)

During the three months ended March 31, 2012, the Group recognized a fair value gain of $0.4 million associated with the market value of an interest rate swap contract that was de-designated during the period. In addition, during the three months ended March 31, 2012, the Group reclassified $0.3 million from other reserves representing previous fair value losses associated with an interest rate swap contract de-designated for hedge accounting during the period. In the comparable period of 2011, the Group recognized a fair value gain of $1.3 million associated with two interest rate swap contracts classified at fair value through profit and loss.

For the three months ended March 31, 2012, the Group recognized a net loss of $0.1 million (2011: gain of $0.6 million) relating to the ineffective portion of the cash flow hedges reclassified from other comprehensive income. In addition, a fair value loss of $1.6 million (2011: gain of $4.5 million), net of tax, was recognized in other comprehensive income related to the effective portion of the Group's interest rate swap contracts.

10. Income taxes

(a) Income tax recovery

	March 31 2012 $'000	March 31 2011 $'000
Current income tax recovery:		
Corporate income tax	493	1,238
Provincial income tax	134	426
Total current income tax recovery	**627**	**1,664**
Deferred tax expense:		
Current period	10	(641)
Tax benefits	(189)	(744)
Total deferred income tax expense	**(179)**	**(1,385)**
Total income tax recovery	**448**	**279**

During the three months ended March 31, 2012, the Group recognized an income tax recovery of $0.4 million (2011: $0.3 million) associated with its Italian solar power projects in Italy, based on the forecasted effective tax rate expected during 2012. Due to the seasonality of revenues generated from solar electricity, the Italian subsidiaries recognized taxable losses during the period.

(b) Current income tax liabilities

	March 31 2012 $'000	December 31 2011 $'000
Corporate income tax	3,168	3,048
Provincial income tax	1,179	1,117
Total	**4,347**	**4,165**

11. Loss per share

Basic and diluted loss per share is calculated by dividing the net loss for the period by the weighted average number of shares outstanding during the period. The calculation of the basic and diluted loss per share for the three months ended March 31, 2012 and 2011, is based on the following data:

	March 31 2012 $'000	March 31 2011 $'000
Loss attributable to owners of the Company	(2,301)	(1,521)
	Number of shares	
Weighted average number of shares outstanding	187,736,233	180,255,898
Basic and diluted loss per share	**$(0.01)**	**$(0.01)**

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 and exchange right in 2011. Note 19

12. Property, plant and equipment

	Land $'000	Solar power projects $'000	Equipment and furniture $'000	Total $'000
Cost:				
At December 31, 2011	**12,952**	**373,506**	**1,102**	**387,560**
Additions	-	104	7	111
Exchange differences	417	11,768	39	12,224
At March 31, 2012	**13,369**	**385,378**	**1,148**	**399,895**
Accumulated depreciation:				
At December 31, 2011	**-**	**22,671**	**780**	**23,451**
Charge for the period	-	4,877	38	4,915
Exchange differences	-	822	27	849
At March 31, 2012	**-**	**28,370**	**845**	**29,215**
Net book value:				
At December 31, 2011	12,952	350,835	322	364,109
At March 31, 2012	13,369	357,008	303	370,680

13. Intangible assets

	Goodwill $'000	Licenses and permits $'000	Other $'000	Total $'000
Cost:				
At December 31, 2011	**1,700**	**12,699**	**33**	**14,432**
Exchange differences	55	409	1	465
At March 31, 2012	**1,755**	**13,108**	**34**	**14,897**
Accumulated amortization:				
At December 31, 2011	**-**	**763**	**-**	**763**
Charge of the period	-	161	-	161
Exchange differences	-	28	-	28
At March 31, 2012	**-**	**952**	**-**	**952**
Net book value:				
At December 31, 2011	1,700	11,936	33	13,669
At March 31, 2012	1,755	12,156	34	13,945

14. Cash and cash equivalents (including restricted cash)

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

	March 31 2012 $'000	December 31 2011 $'000
Cash at banks	38,178	39,656
Total	**38,178**	**39,656**

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

	March 31 2012 $'000	December 31 2011 $'000
Unrestricted cash and cash equivalents	9,425	10,004
Cash and cash equivalents restricted to solar power projects	28,753	29,652
Total	**38,178**	**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.

15. Share capital

	Number of shares outstanding	Share capital $'000
At December 31, 2011	**187,536,120**	**23,293**
Share issuance Note 19	18,210,299	9,977
At March 31, 2012	**205,746,419**	**33,270**

15. 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, 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 months ended March 31, 2012, the Group recognized an expense of $0.1 million (2011: $0.2 million) related to share-based payments on its stock option awards scheme.

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

	Number of share options	Weighted average exercise price CAD$
At December 31, 2011	**4,367,200**	**0.74**
Granted	647,000	0.52
Cancelled	(350,000)	1.36
At March 31, 2012	**4,664,200**	**0.66**
Stock options exercisable:		
At December 31, 2011	2,482,399	0.82
At March 31, 2012	2,325,731	0.72

17. 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	-	(7,959)	(7,959)
Accrued interest	1,770	3,574	5,344
Amortization of transaction costs	43	170	213
Exchange difference	2,557	10,664	13,221
At March 31, 2012	**82,762**	**337,154**	**419,916**
- Current portion	3,247	16,620	19,867
- Non-current portion	79,515	320,534	400,049

17. Borrowings (continued)

(a) Corporate borrowings

At March 31, 2012, the Group had $80.4 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 March 31, 2012, the amount outstanding, including accrued interest and net of transaction costs, was $82.8 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 2.75%. In order to secure the Group's non-recourse project loans, the Group pledged as collateral the fixed assets (i.e., solar power projects and land) associated with the solar power projects financed by these facilities. Repayment of these facilities is secured principally by the proceeds from the sale of electricity under contracts entered into by the Group with the GSE and local utilities (Enel S.p.A. and Terna S.p.A.) and the proceeds from the collection of input VAT accumulated for construction costs.

At March 31, 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.

18. Derivative financial instruments

	March 31 2012 $'000	December 31 2011 $'000
Derivative financial liabilities:		
Interest rate swap contracts (cash flow hedges)		
- Current portion	7,339	5,462
- Non-current portion	26,176	25,213
Total derivative financial liabilities	**33,515**	**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 March 31, 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 period.

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.

19. Related parties (continued)

(a) Related party transactions

During the three months ended March 31, 2012 and 2011, the Group entered into the following transactions with related parties:

	March 31 2012 $'000	March 31 2011 $'000
General and administrative expenses		
Lundin Services BV	1	5
Lundin Petroleum SA	-	31
Finance costs		
Lundin Services BV:		
- Interest expense	-	890
- Loan transaction costs	-	33
- Interest expense associated with corporate bond	224	-
- Transaction costs associated with corporate bond	5	-
Lundin family:		
- Interest expense associated with corporate bond	442	-
- Transaction costs associated with corporate bond	11	-
Total transactions with related parties	**683**	**959**

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

	March 31 2012 $'000	December 31 2011 $'000
Current liabilities:		
Lundin Services BV:		
- General and administrative expenses	1	3
- Participation in corporate bond	411	177
Lundin Family (participation in corporate bond)	811	349
Total current liabilities	**1,223**	**529**
Non-current liabilities:		
Lundin Services BV (participation in corporate bond)	10,072	9,752
Lundin family (participation in corporate bond)	19,879	19,248
Total non-current liabilities	**29,951**	**29,000**
Total amounts outstanding to related parties	**31,174**	**29,529**

There were no amounts outstanding from related parties at March 31, 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 $11.9 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 $1.7 million (€1.3 million) of the corporate bonds, reducing their position to $10.5 million (€7.6 million) at March 31, 2012 (December 31, 2011: $9.8 million).

In April 2010, the Company entered into a loan agreement with Lundin Services BV to draw up to $80.4 million. This loan was fully repaid in May 2011.

19. Related party disclosure (continued)

(a) Related party transactions (continued)

Lundin family

In April 2011, investment companies associated with the Lundin family subscribed for $20.7 million (€15.0 million) of the corporate bonds issued by the Company at 9% annual interest with a 4-year maturity.

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 months ended March 31, 2012 and 2011 is as follows:

	March 31 2012 $'000	March 31 2011 $'000
Salaries and short-term benefits	216	208
Pension costs	37	32
Board of Directors (non-executive directors)	60	60
Share-based payment	37	81
Total	**350**	**381**

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

	March 31 2012 $'000	December 31 2011 $'000
Mr. Northland's guaranteed floor	-	5,176
Board of Directors (non-executive directors)	60	60
Other (bonus payable and pension costs payable)	-	278
Total	**60**	**5,514**

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

Mr. Northland's exchange right

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 exchange his previously held 10% equity 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 to exchange his previously held 10% equity interest in SRH, and, as a result, 18,210,299 common shares of the Company were issued to Mr. Northland. Following the conversion, 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.

19. Related party disclosure (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 March 31, 2012, by $10 million. In addition, during the three months ended March 31, 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. In addition, during the three months ended March 31, 2011, the Group recognized a share-based payment expense of $0.1 million 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