etrion

Management Discussion & Analysis

Three and six months ended June 30, 2011

Contents

INTRODUCTION

The following management discussion and analysis ("MD&A") for Etrion Corporation ("Etrion" or the "Company" and together with its subsidiaries, the "Group") is intended to provide an overview of the Group's operations, financial performance and current and future business environments. This MD&A, prepared as of August 10, 2011, should be read in conjunction with the Company's condensed consolidated interim financial statements and accompanying notes for the three and six months ended June 30, 2011. Financial information is reported in United States dollars ("$"). However, as the Group primarily operates in Italy, certain financial information associated with its renewable energy projects is reported in Euros ("€"). At June 30, 2011, the €/$ exchange rate was 1.45, and the average exchange rate for the three and six months ended June 30, 2011, was 1.40.

This MD&A contains forward-looking information based on the Company's current expectations, estimates, projections and assumptions. This information is subject to a number of risks and uncertainties, many of which are beyond the Company's control. Users of this information are cautioned that actual results may differ materially from the information within. For information on material risk factors and assumptions underlying the forward-looking information refer to the "Cautionary Statement Regarding Forward-Looking Information" on page 19.

HIGHLIGHTS

OPERATIONAL

- Produced 29.3 million and 42.1 million kilowatt-hours ("kWh") of solar electricity from five solar power projects (Cassiopea, Centauro, Etrion Lazio, Helios ITA and SVE) during the three and six months ended June 30, 2011, respectively.
- Commenced construction of the 10 megawatt ("MW") Helios ITA-3 and 2.6 MW Nettuno solar power projects, both expected to be connected to the electricity grid in the third quarter of 2011.

FINANCIAL

- Generated solar electricity revenue of $17.8 million and $25.1 million during the three and six months ended June 30, 2011, respectively.
- Recognized a positive adjusted EBITDA for the renewable energy segment of $16.6 million and $22.5 million during the three and six months ended June 30, 2011, respectively.
- Issued, in April 2011, $87 million (€60 million) of corporate bonds in the Norwegian bond market at 9% annual interest with a 4-year maturity.
- Repaid, in May 2011, the outstanding principal and interest associated with the $87 million (€60 million) credit facility provided by a subsidiary of Lundin Petroleum AB.
- Closed, in June 2011, a $40.5 million (€28 million) bridge loan from the Company's major shareholder, the Lundin family.
- Closed, in August 2011, an additional tranche of project financing to include the 2.6 MW Nettuno solar power project within the facility from Natixis, WestLB and Mediocreval.

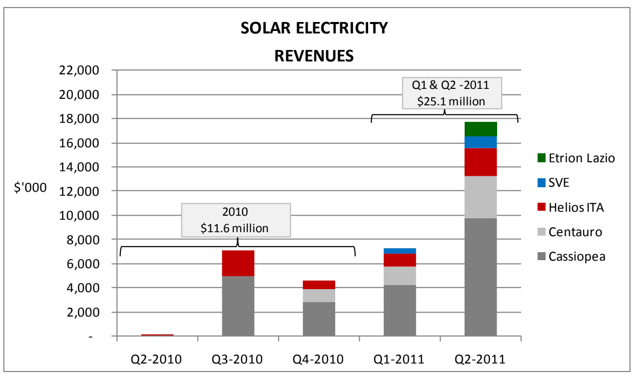
Business Review

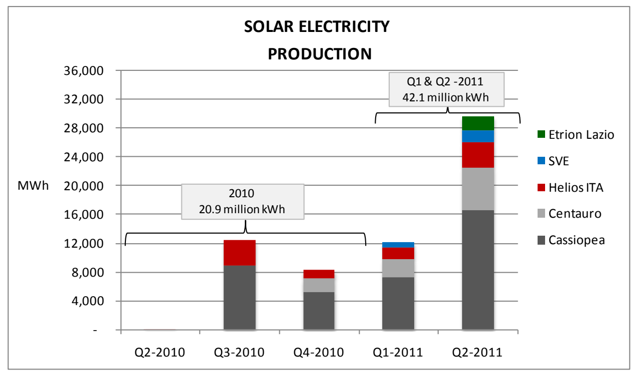
Etrion is an independent power producer focused on acquiring, developing, building, owning and operating solar power plants. The Group currently owns 47.2 megawatts of operational, ground-based solar photovoltaic ("PV") power plants and has 12.6 MW of solar power projects under construction.

Etrion focuses on countries with government incentives for solar power production, specifically Feed-in-Tariff ("FiT") environments like Italy. The Italian FiT is a 20-year commitment from the government to purchase 100% of a solar park's electricity production at a premium constant rate. If solar costs continue to drop as expected and the market evolves beyond the need for governmental incentives, the Group's long-term focus will be on power purchase agreements ("PPAs") with industrial clients. Future growth will be driven by the development and acquisition of additional renewable power facilities under long-term contracts in markets with high electricity prices and attractive solar irradiation.

SECOND QUARTER 2011 RESULTS AT A GLANCE

During the second quarter of 2011, the Group recognized revenues from five solar power projects in Italy (Cassiopea, Centauro, Etrion Lazio, Helios ITA, and SVE).





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

Financial highlights for the three and six months ended June 30, 2011, for the Group's renewable energy segment are shown in the table below. The Group generated its first revenues from solar power projects in June 2010.

	Three months ended June 30		Six months ended June 30	
	2011	**2010**	**2011**	**2010**
Renewable energy segment	**$'000**	**$'000**	**$'000**	**$'000**
Revenue	**17,829**	**127**	**25,106**	**127**
Renewable segment EBITDA[(1)]	16,231	89	24,124	89
- Liquidation damages[(2)]	(247)	-	(2,189)	-
- EPC contract cancellation fee[(3)]	580	-	580	-
Adjusted renewable segment EBITDA	**16,564**	**89**	**22,515**	**89**
Adjusted EBITDA margin (%)	**93%**	**70%**	**90%**	**70%**

Notes:

(1) EBITDA represents earnings before interest, taxation, depreciation and amortization.

(2) During the three and six months ended June 30, 2011, the Group recognized a gain of $0.2 million and $2.2 million, respectively, from liquidation damages related to delays encountered by the engineering, procurement and construction ("EPC") contractors responsible for the construction of two of the Group's solar power projects (SVE and Etrion Lazio).

(3) During the three months ended June 30, 2011, the Group recognized an expense of $0.6 million for the EPC contract cancellation fee related to the Helios ITA-3 solar power project.

SECOND QUARTER 2011 RESULTS AT A GLANCE (CONTINUED)

Production and pricing information for the three and six months ended June 30, 2011, is shown in the table below. In the comparable periods of 2010, the Group generated only 173 megawatt-hours ("MWh") of electricity and recognized $0.1 million of revenues because the acquisition of Helios ITA, the Company's first operational solar power project, closed on June 24, 2010.

	Three months ended June 30			Six months ended June 30		
	MWh	Price[1] ($/kWh)	Revenue $'000	MWh	Price ($/kWh)	Revenue $'000
FiT revenues (based on actual production)[2]	29,282	0.50	14,641	42,063	0.49	20,611
Market Price revenues (based on evacuated production)[3]	28,982	0.11	3,188	40,864	0.11	4,495
Total revenue			**17,829**			**25,106**

Notes:

(1) Prices are received in Euros and have been translated at the average €/$ exchange rate of 1.40 for the three and six months ended June 30, 2011.

(2) The FiT is received on kWh of electricity produced. Production information is based on estimates until confirmed by the Italian government through the state-owned company, Gestore Servici Energetici ("GSE").

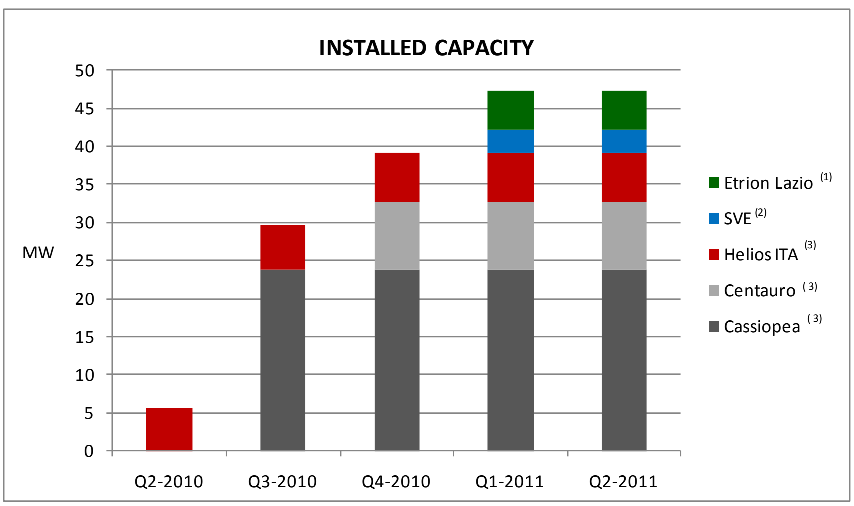
(3) The spot market price ("Market Price") is received in addition to the FiT. The Market Price is based on evacuated production (i.e., electricity produced less transmission losses). Production and pricing information is based on estimates until confirmed by the local utilities, Enel S.p.A. and Terna S.p.A.

Financial results

- Solar power revenues of $17.8 million and $25.1 million from five solar power projects (Cassiopea, Centauro, Etrion Lazio, Helios ITA and SVE) for the three and six months ended June 30, 2011, respectively.
- Positive adjusted EBITDA for the renewable energy segment of $16.6 million and $22.5 million for the three and six months ended June 30, 2011, respectively.

Business developments

A summary of the Group's total installed capacity of 47.2 MW at June 30, 2011, is as follows:



Notes:

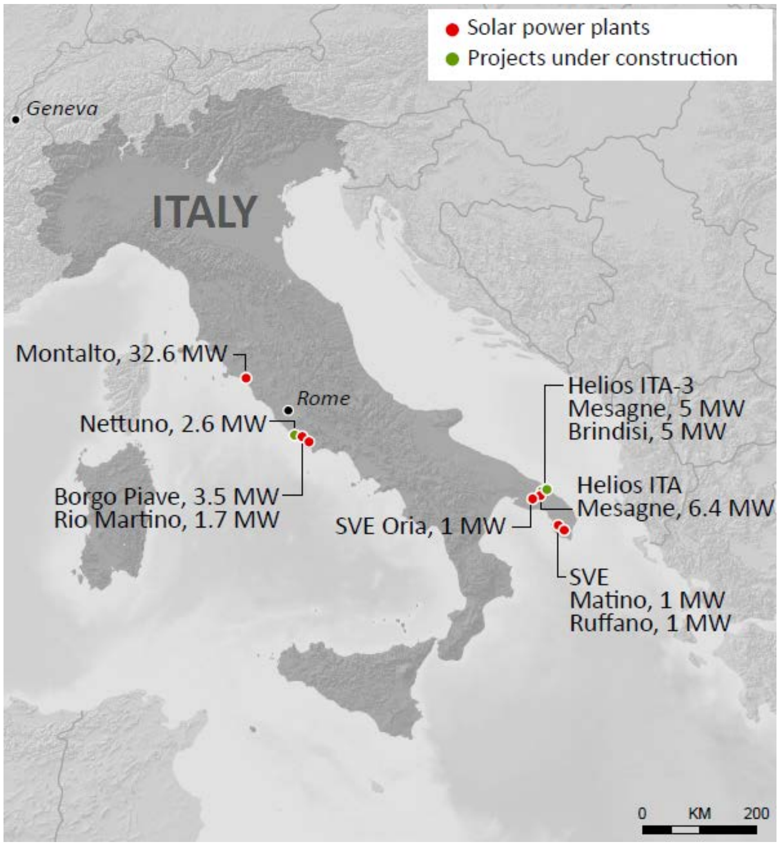
(1) Etrion Lazio was installed at the end of 2010. However, the solar power project was not connected to the electricity grid until April 2011.

(2) SVE was installed in 2010 with the first revenues being recognized in the first quarter of 2011.

(3) Revenues were recognized from Helios ITA, Cassiopea and Centauro as of their respective acquisition dates, June 24, 2010, August 5, 2010, and October 1, 2010, respectively.

SOLAR ENERGY PROJECTS

The following map details the location of the Group's solar power projects in Italy:



A summary of the Group's current solar power projects is below:

Project	Region	Sites	Capacity (MW)	Technology(1)	Contractor	Panels	Inverters	Status
Cassiopea	Lazio	1	23.9	Single axis	SunPower	SunPower	SMA	Operational
Centauro	Lazio	1	8.7	Single axis	SunPower	SunPower	SMA	Operational
Helios ITA	Puglia	7	6.4	Single axis	Solon	Solon	Santerno	Operational
Etrion Lazio (Borgo Piave, Rio Martino)	Lazio	2	5.2	Fixed-tilt	Phoenix	Trina	SMA	Operational
SVE (Oria, Matino, Ruffano)	Puglia	3	3.0	Single axis	SunPower	SunPower	Siemens	Operational
Helios ITA-3 (Brindisi, Mesagne)	Puglia	2	10.0	Single axis	ABB	Yingli	Bonfiglioli	Under construction
Nettuno	Lazio	1	2.6	Fixed-tilt	Phoenix	Trina	SMA	Under construction
Total		**17**	**59.8**					

Note:

(1) Single axis refers to tracking technology.

SOLAR ENERGY PROJECTS (CONTINUED)

Operating projects

Cassiopea and Centauro

The Cassiopea and Centauro solar power projects are located on contiguous sites in Montalto di Castro in the Lazio region of Italy. Cassiopea, a 23.9 MW project, was connected to the grid in November 2009. Centauro, an 8.7 MW project, was connected to the grid in July 2010. Both of these ground-mounted solar PV power plants were built by SunPower Corporation ("SunPower"), a US-based solar panel manufacturer and installer, and use high efficiency SunPower modules mounted on single axis trackers with power conversion completed through SMA inverters. Both projects have an operations and maintenance ("O&M") contract with SunPower, including preventive and corrective maintenance.

The Cassiopea project benefits from the 2009 FiT of $0.512 (€0.353) per kWh plus the Market Price of approximately $0.12 (€0.08) per kWh. The Centauro project benefits from the 2010 FiT of $0.502 (€0.346) per kWh plus the Market Price of approximately $0.12 (€0.08) per kWh.

Helios ITA

The Helios ITA project in Puglia, Italy, consists of seven ground-mounted solar PV sites with a total capacity of 6.4 MW. Six of the Helios ITA solar parks were connected to the grid in December 2009 and the last park built was connected in December 2010. The Helios ITA solar parks were built by Solon S.p.A. ("Solon"), a German solar panel manufacturer and installer, and use single axis trackers with Solon poly-crystalline modules and Santerno inverters. Helios ITA has an O&M contract with Solon, including preventive and corrective maintenance.

Six of the Helios ITA solar parks, just under 1.0 MW each for a total of 5.9 MW, benefit from the 2009 FiT of $0.512 (€0.353) per kWh plus the Market Price of approximately $0.12 (€0.08) per kWh. The last park built (0.5 MW) benefits from the 2010 FiT of $0.502 (€0.346) per kWh plus the Market Price of approximately $0.12 (€0.08) per kWh.

Etrion Lazio

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

Both parks benefit from the 2010 FiT of $0.502 (€0.346) per kWh plus the Market Price of approximately $0.12 (€0.08) per kWh.

SVE

The SVE project in Puglia, Italy, consists of three ground-mounted solar PV parks: Oria (1.0 MW), Matino (1.0 MW) and Ruffano (1.0 MW). All of these parks were connected to the grid in December 2010. The SVE solar parks were built by SunPower and use high efficiency SunPower modules mounted on single axis trackers with power conversion completed through Siemens inverters. SVE has an O&M contract with SunPower, including preventive and corrective maintenance.

All three solar parks benefit from the 2010 FiT of $0.502 (€0.346) per kWh plus the Market Price of approximately $0.12 (€0.08) per kWh.

SOLAR ENERGY PROJECTS (CONTINUED)

Projects under construction

Helios ITA-3

The Helios ITA-3 project consists of two ground-mounted solar PV parks under construction: Brindisi (5.0 MW) and Mesagne (5.0 MW). In June 2011, the Group cancelled the previous EPC contract with SunPower and engaged ABB S.p.A. ("ABB"), the Swiss power and automation technology group, to design, construct and provide O&M services for these plants using Yingli poly-crystalline PV modules mounted on SunPower single axis trackers with power conversion completed through Bonfiglioli inverters.

Once connected, the Helios ITA-3 project is expected to receive the applicable FiT available at that date plus the Market Price of approximately $0.12 (€0.08) per kWh.

Nettuno

The Nettuno project in Lazio, Italy, has a total capacity of 2.6 MW. The Group has engaged Phoenix to design, construct and provide O&M services for this plant using Trina poly-crystalline PV modules installed on fixed-tilt structures with power conversion completed through SMA inverters.

Once connected, the Nettuno project is expected to receive the applicable FiT available at that date plus the Market Price of approximately $0.12 (€0.08) per kWh.

MARKET OVERVIEW

The market for renewable energy sources, including solar, biomass, wind, hydro and bio fuels, is driven by a number of different factors, such as legislative and policy support, cost of subsidies, technology, macroeconomic conditions and environmental concerns. The overall goal of the solar energy market is to reach grid parity, whereby the price of solar energy is competitive with traditional sources of electricity, such as coal, natural gas and nuclear energy. In order to achieve this, the conversion efficiency of solar modules needs to be increased, and the cost of building solar PV power systems needs to be reduced. Management expects some countries to reach grid parity within the next five years. Italy is expected to be one of the first countries to achieve this due to its strong solar irradiation and high electricity prices.

ITALIAN MARKET

Italy is Europe's second-largest producer of solar electricity after Germany. In 2005, the Italian government introduced a FiT system in order to encourage expansion of solar energy. The strong growth of solar installed capacity since 2005 is largely attributable to the attractive FiT program, strong irradiation and high electricity prices. The Italian state-owned company, GSE, is responsible for managing the subsidy program, but the actual cost of the subsidy is paid by the ultimate consumer through a small tax on utility bills.

The Italian FiT program pays a premium price for renewable electricity that is guaranteed by the Italian government for a period of 20 years at a constant rate. Since 2005, the Italian FiT has been revised for new projects to account for the decreasing cost to build solar power generation. Although the FiT continues to be reduced for new projects, depending on the installation date, the development and operation of solar parks in Italy remains attractive as costs continue to decrease.

In addition to the FiT, solar power generators receive the spot market rate on a per kWh basis. The Market Price in 2009 and 2010 averaged from $0.11 to $0.16 (€0.08 to €0.12) per kWh of energy produced.

ITALIAN MARKET (CONTINUED)

A summary of the actual FiT received by the Group for its ground-mounted solar PV power projects connected in 2009 and 2010 is as follows:

	2010	2009
FiT (per kWh)[(1)]	$0.502 (€0.346)	$0.512 (€0.353)
Duration	20 years	20 years

Note:

(1) Prices are quoted in Euros and have been translated at the closing €/$ rate of 1.45 at June 30, 2011.

On May 5, 2011, the Italian government approved a decree establishing new tariffs for solar PV plants entering into operation from June 1, 2011, through December 31, 2016. The decree provides for tariffs to be granted to solar parks based on the type of solar plant installed and the date of grid connection, with annual caps on installed solar capacity.

In addition, on March 3, 2011, the Italian government approved a decree that includes land restrictions for solar PV plants installed on agricultural land.

Specifically, the two decrees include the following provisions:

- 2011 FiT: monthly degression in the 20-year FiT applicable to solar PV plants connected between June 1, 2011, and December 31, 2011 (such that the FiT applicable to solar PV plants of 1.0 to 5.0 MW capacity connected in December 2011 would be 35% lower than the FiT applicable to solar PV plants connected in May 2011);
- 2011 Annual cap: a maximum of 1,200 MW of solar PV plants eligible for the FiT after August 31, 2011. However, projects connected to the grid on or before August 31, 2011, are not subject to the cap;
- 2012 Annual cap or target: a maximum of 1,490 MW of solar PV plants eligible for the FiT; and
- 2012 Agricultural land restrictions (applicable to PV plants authorized after March 29, 2011, and to previously authorized plants if not connected by March 29, 2012):
  - 1 MW cap for ground-mounted PV plants installed on agricultural land; and
  - Ground coverage restriction of up to 10% for PV plants installed on agricultural land (i.e., the PV plant can only cover up to 10% of the relevant land area).

The new FiT impacts the Group's projects under construction (Helios ITA-3 and Nettuno) and its solar development pipeline in Italy. However, the Group's operational projects are not affected.

OTHER MARKETS

Incentive structures for solar power generation currently exist in many markets, including Spain, Germany, Greece and North America, and are a key driver for market growth. The aim of the incentives is to increase investment in solar PV power generation in order to deliver greater efficiency and cost reductions.

The Group is actively working in the Italian market and is also exploring investment opportunities in other markets within Southern Europe and North America that offer attractive government incentives, such as a FiT, capital subsidies and tax incentives.

Financial Review

QUARTERLY RESULTS

Selected consolidated financial information for the three and six months ended June 30, 2011 and 2010, is set out below.

	Three months ended June 30		Six months ended June 30	
	June 30, 2011 $'000	**June 30, 2010 $'000**	**June 30, 2011 $'000**	**June 30, 2010 $'000**
Revenue	**17,829**	**127**	**25,106**	**127**
Gross profit	**12,933**	**89**	**15,377**	**89**
Net loss	**(2,124)**	**(4,191)**	**(3,645)**	**(7,726)**
Adjustments for non-recurring items:				
- Exchange right non-cash compensation expense	113	623	223	1,366
- Liquidation damages	(247)	-	(2,189)	-
- EPC contract cancellation fee	580	-	580	-
Adjusted net loss	**(1,678)**	**(3,568)**	**(5,031)**	**(6,360)**
	$	**$**	**$**	**$**
Basic and diluted loss per share (net loss)	(0.01)	(0.03)	(0.02)	(0.05)
Basic and diluted loss per share (adjusted net loss)	(0.01)	(0.03)	(0.03)	(0.05)

	$'000	**$'000**	**$'000**	**$'000**
Net loss	**(2,124)**	**(4,191)**	**(3,645)**	**(7,726)**
Items not affecting operating cash flow:				
- Net income tax expense/(recovery)	2,306	45	2,027	(197)
- Depreciation and amortization	4,564	71	8,851	112
- Share-based payment expense	311	807	643	1,799
- Net finance costs	7,879	1,144	10,522	2,059
- Foreign exchange gain	(129)	-	(558)	-
- Net loss on sale of assets	-	17	-	27
- Income tax paid	(576)	-	(1,519)	-
- Changes in working capital	(20,018)	922	(33,354)	(3,031)
Operating cash flow	**(7,787)**	**(1,185)**	**(17,033)**	**(6,957)**

Selected consolidated financial information at June 30, 2011, and December 31, 2010, is shown below.

	June 30, 2011 $'000	**December 31, 2010 $'000**
Total assets	**528,539**	**446,216**
Total non-current liabilities	**397,969**	**279,745**
Dividends declared	**-**	**-**

The following table contains selected consolidated financial information for the last eight quarters (presented in $'000, except for per share data):

	2011		**2010**				**2009**	
	Q2	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Revenue	17,829	7,277	4,605	6,833	127	-	-	-
Net loss	(2,124)	(1,521)	(4,019)	(6,375)	(4,191)	(3,536)	(4,897)	(50,926)
Basis and diluted loss per share	(0.01)	(0.01)	(0.02)	(0.04)	(0.03)	(0.02)	(0.03)	(0.32)

The Group reported a net loss of $2.1 million during the second quarter of 2011 compared to a net loss of $4.2 million in the comparable period of 2010. The results for the three months ended June 30, 2011, are not comparable to the prior year as the Group generated its first revenues from the sale of solar electricity in June 2010.

QUARTERLY RESULTS (CONTINUED)

Solar-related revenues experience seasonality over the year due to the variability of daily sun hours in the summer versus the winter months. As a result, the Group experienced an increase in revenue in the second quarter of 2011 compared to the first quarter of 2011 and the fourth quarter of 2010. In addition, five projects were operational in the second quarter of 2011 compared to four projects in the first quarter of 2011 and three projects in the fourth quarter of 2010.

FINANCIAL RESULTS

During the three and six months ended June 30, 2011, the Group reported a net loss of $2.1 million (2010: net loss of $4.2 million) and $3.6 million (2010: net loss of $7.7 million), respectively. Revenue of $17.8 million (2010: $0.1 million) and $25.1 million (2010: $0.1 million) for the three and six months ended June 30, 2011, respectively, was generated from electricity sales from five of the Group's solar power projects compared to one in the comparable periods of 2010. This resulted in positive gross profit from operations for the three and six months ended June 30, 2011, of $12.9 million (2010: $0.1 million) and $15.4 million (2010: $0.1 million), respectively.

The net results for the three and six months ended June 30, 2011, were positively impacted by non-recurring liquidation damages of $0.2 million (2010: $nil) and $2.2 million (2010: $nil), respectively, related to delays encountered by the EPC contractors responsible for the construction of two of the Group's solar power projects (SVE and Etrion Lazio) and adversely impacted by a non-cash compensation expense of $0.1 million (2010: $0.6 million) and $0.3 million (2010: $1.4 million), respectively, and an expense of $0.6 million recognized in June 2011 for the EPC contract cancellation fee related to the construction of the Helios ITA-3 solar power project.

Revenue

Revenues earned during the three and six months ended June 30, 2011, were generated from the FiT and Market Price, both paid by Italian state-owned companies (as discussed in "Market Overview" on pages 6 and 7), as follows:

	Three months ended June 30		**Six months ended June 30**	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
FiT revenue	14,663	127	20,611	127
Market price revenue	3,166	-	4,495	-
Total	**17,829**	**127**	**25,106**	**127**

Operating costs

	Three months ended June 30		**Six months ended June 30**	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
O&M costs	69	38	214	38
Land lease	19	-	37	-
Insurance	103	-	302	-
Depreciation and amortization	4,477	-	8,700	-
Other operating costs	228	-	476	-
Total	**4,896**	**38**	**9,729**	**38**

O&M costs of $0.1 million (2010: $38,000) and $0.2 million (2010: $38,000) for the three and six months ended June 30, 2011, respectively, relate to fees paid in connection with O&M activities of the Group's solar power projects in Italy. The Group outsources O&M services for the projects to external third parties.

Depreciation and amortization of $4.5 million (2010: $nil) and $8.7 million (2010: $nil) was recognized during the three and six months ended June 30, 2011, respectively, in relation to operating solar power projects producing electricity during the periods.

FINANCIAL RESULTS (CONTINUED)

General and administrative expenses

	Three months ended June 30		Six months ended June 30	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Salaries and benefits	1,673	1,404	3,117	2,329
Board fees	60	60	120	120
Professional services	667	522	1,326	1,105
Share-based compensation (non-cash item)	311	807	643	1,799
Depreciation and amortization	87	71	151	112
Office, listing and filing expenses and other	1,241	305	2,316	720
Total	**4,039**	**3,169**	**7,673**	**6,185**

The increase in general and administrative expenses for the three and six months ended June 30, 2011, compared to 2010 is primarily due to the acquisition of solar power projects during the second half of 2010 and the subsequent increased level of activity in the renewable energy sector.

During the three and six months ended June 30, 2011, the Group recognized $0.3 million (2010: $0.8 million) and $0.6 million (2010: $1.8 million), respectively, of expenses related to the Company's equity-settled, share-based compensation plan. At June 30, 2011, the number of stock options outstanding was 6.1 million (December 31, 2010: 8.1 million). The share-based payment expense also includes $0.1 million (2010: $0.6 million) and $0.2 million (2010: $1.4 million) for the three and six months ended June 30, 2011, respectively, related to the carried interest on the 10% interest in the Company's subsidiary, Solar Resources Holding Sarl ("SRH"), held by Marco A. Northland, the Chief Executive Officer of the Company ("Mr. Northland"). Refer to "Related Party Transactions" on pages 15 and 16.

Depreciation of $0.1 million (2010: $0.1 million) and $0.2 million (2010: $0.1 million) was recognized during the three and six months ended June 30, 2011, respectively, related to depreciation of the Group's corporate assets. Depreciation and amortization associated with the Group's operating solar power projects is included within operating costs on page 9.

The Company does not capitalize general and administrative expenses.

Other (expenses)/income

	Three months ended June 30		Six months ended June 30	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Liquidation damages:				
- SVE	-	-	1,207	-
- Etrion Lazio	247	-	982	-
EPC contract cancellation fee	(580)	-	(580)	-
Other expenses (net)	(206)	-	(223)	-
Total	**(539)**	**-**	**1,386**	**-**

During the three and six months ended June 30, 2011, the Group recognized a gain of $0.2 million (2010: $nil) and $2.2 million (2010: $nil), respectively, from liquidation damages related to delays encountered by the EPC contractors responsible for the construction of two of the Group's solar power projects (SVE and Etrion Lazio).

In addition, during the three months ended June 30, 2011, the Group recognized an expense of $0.6 million for the EPC contract cancellation fee related to the Helios ITA-3 solar power project.

The Group recognized no other income in the comparable period of 2010.

FINANCIAL RESULTS (CONTINUED)

Net finance costs

	Three months ended June 30		Six months ended June 30	
	June 30, 2011 $'000	June 30, 2010 $'000	June 30, 2011 $'000	June 30, 2010 $'000
Finance income				
- Fair value movements on interest rate swap contracts	88	-	1,448	-
- Foreign exchange gains	129	59	558	237
- Other finance income	103	41	119	41
	320	100	2,125	278
Finance costs				
- Interest expense, including amortization of transaction costs	(7,761)	(419)	(12,467)	(451)
- Fair value movements on interest rate swap contracts	(595)	(747)	-	(1,654)
- Other finance costs	(524)	-	(864)	-
- Finance costs capitalized	387	-	498	-
	(8,493)	(1,166)	(12,833)	(2,105)
Total	**(8,173)**	**(1,066)**	**(10,708)**	**(1,827)**

During the three and six months ended June 30, 2011, the Group accrued and paid interest, including amortization of transaction costs, of $5.2 million (2010: $0.2 million) and $9.0 million (2010: $0.3 million), respectively, on five non-recourse loans associated with its solar power projects in Italy (2010: two non-recourse loans). The loan agreements bear interest at 6-month Euribor plus a variable margin, payable semi-annually until maturity and are hedged through interest rate swap contracts.

In addition, during the three and six months ended June 30, 2011, the Group accrued and paid interest, including amortization of transaction costs, of $2.6 million (2010: $0.2 million) and $3.5 million (2010: $0.2 million), respectively, related to the corporate bond issued in April 2011, the loan facility from Lundin Services BV, a wholly-owned subsidiary of Lundin Petroleum AB, that was repaid in May 2011 and the bridge loan from the Lundin family, obtained in June 2011. Refer to “Financial Position” on page 12 and “Related Party Transactions” on page 15.

Income tax expense

	Three months ended June 30		Six months ended June 30	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Current income tax expense/(recovery):				
- Corporate income tax expense	3,599	22	2,361	41
- Municipal income tax expense/(recovery)	1,300	23	874	(238)
	4,899	**45**	**3,235**	**(197)**
Deferred tax recovery:				
- Current period	(658)	-	(18)	-
- Tax losses utilized	(1,935)	-	(1,190)	-
	(2,593)	-	(1,208)	-
Total	**2,306**	**45**	**2,027**	**(197)**

During the three and six months ended June 30, 2011, the Group recognized an income tax expense of $4.9 million (2010: $nil) and $3.2 million (2010: $nil), respectively, associated with its Italian solar plant operations, based on the forecasted effective tax rate expected during 2011. In the comparable periods of 2010, the Group recognized an income tax expense associated with its Swiss subsidiary and a tax recovery on warrants that expired during the period.

During the three and six months ended June 30, 2011, the Group recognized a deferred tax benefit of $2.6 million (2010: $nil) and $1.2 million (2010: $nil), respectively, in relation to temporary differences arising between the tax bases of assets and liabilities and their carrying amounts and utilized tax losses.

FINANCIAL POSITION

During the first six months of 2011, the Group's net assets increased by $6.9 million from $34.8 million at December 31, 2010, to $41.7 million at June 30, 2011. The increase in net assets is primarily attributable to the issuance of 6.5 million common shares of the Company to the Lundin family as compensation for the $40.5 million (€28 million) bridge loan. Refer to "Related Party Transactions" on page 15.

Assets related to the Group's renewable energy segment, included within property, plant and equipment and intangible assets at June 30, 2011 and December 31, 2010, were as follows:

	June 30, 2011 $'000	December 31, 2010 $'000
Property, plant and equipment	392,181	340,883
Intangible assets	13,243	11,630
Total	**405,424**	**352,513**

Liquidity and capital resources

At June 30, 2011, the Group had cash and cash equivalents of $45.2 million (December 31, 2010: $45.0 million), of which $28.1 million (December 31, 2010: $40.3 million) was restricted to solar power projects in Italy. In addition, the Group had negative working capital of $8.9 million (December 31, 2010: $73.3 million) due to the $40.5 million owed in relation to the bridge loan provided by the Lundin family.

The Group is well positioned to generate significant operating cash flows in 2011 from its solar power projects and expects to finance the construction of existing projects and the acquisition of new projects with a combination of cash and cash equivalents, additional corporate equity or debt financing, vendor financing and non-recourse project loans, as required. Refer to "Going Concern" on pages 13 and 14.

Lundin Services BV loan

In April 2010, the Company entered into a loan facility agreement with Lundin Services BV for up to $87 million (€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 bond issue were used to repay the Lundin Services BV loan facility in full. Refer to "Corporate bond issue" below.

Corporate bond issue

In April 2011, the Company issued $87 million (€60 million) of corporate bonds in the Norwegian bond market at 9% annual interest with a 4-year maturity. At June 30, 2011, the amount outstanding, including accrued interest and net of transaction costs, was $87.5 million. Net proceeds from the bond issue were used for early repayment of the loan facility loan provided by Lundin Services BV and for general corporate purposes. Refer to "Lundin Services BV loan" above.

Lundin family bridge loan

In order to accelerate construction of the Helios ITA-3 and Nettuno solar power projects, in June 2011, the Company received a $40.5 million (€28 million) bridge loan from the Company's major shareholder, the Lundin family. The bridge loan bears no interest and matures in June 2012. In consideration for the bridge loan, the Company issued 6.5 million common shares of the Company to the Lundin family.

Non-recourse project loans

The non-recourse loans held by the Italian subsidiaries mature at various dates between 2024 and 2028. Counterparties to the non-recourse loans do not have unconditional or unilateral discretionary rights to accelerate repayment to earlier dates. Therefore, the Group is somewhat protected from short-term liquidity fluctuations.

FINANCIAL POSITION (CONTINUED)

Liquidity and capital resources (continued)

Non-recourse project loans (continued)

Below is a summary of the Group's non-recourse loans denominated in Euros, translated at the closing €/$ exchange rate of 1.45 at June 30, 2011 and 1.34 at December 31, 2010:

				Balance outstanding[1]	
	Capacity (MW)	Financial institution	Maturity	June 30, 2011 $'000	December 31, 2010 $'000
Cassiopea	23.9	BIIS[2], Societe Generale and WestLB	March 31, 2024	162,350	152,030
Centauro	8.7	Barclays	September 30, 2028	59,714	55,227
Helios ITA	6.4	Societe Generale and Dexia	June 30, 2029	49,456	46,728
Etrion Lazio	5.2	Natixis, WestLB and Mediocreval	December 31, 2027	15,650	6,320
SVE	3.0	Centrobanca	June 30, 2028	19,583	13,428
Helios ITA-3[3]	10	Natixis, WestLB and Mediocreval	December 31, 2027	-	-
Nettuno[3][4]	2.6	Natixis, WestLB and Mediocreval	December 31, 2027	-	-
Total	**59.8**			**306,753**	**273,733**

Notes:

(1) Balances outstanding include the value added tax facilities associated with the loans and accrued interest net of transaction costs.

(2) Banca Infrastrutture Innovazione e Sviluppo (Intesa Sanpaolo Group).

(3) The first draw-down on these facilities is expected to take place during the second half of 2011.

(4) On August 5, 2011, the Group closed an additional tranche of project financing to include the 2.6 MW Nettuno solar power project within the facility from Natixis, WestLB and Mediocreval.

Outstanding share data

At June 30, 2011, the Company had approximately 187.5 million common shares and approximately 6.1 million options to purchase common shares issued and outstanding. During the three and six months ended June 30, 2011, the Company issued 0.3 million and 1.3 million common shares, respectively, as a result of stock options being exercised. In June 2011, the Company also issued 6.5 million common shares to the Lundin family as consideration for the bridge loan. Refer to "Liquidity and capital resources" on page 12.

The stock options outstanding expire at various dates between November 30, 2011, and April 28, 2018, with exercise prices in Canadian dollars ("CAD$") ranging between CAD$0.25 and CAD$1.59 per share.

In addition, Mr. Northland has the right until September 11, 2014, to exchange his 10% equity interest in the Company's subsidiary, SRH, for an equivalent value of shares in Etrion. Refer to "Related Party Transactions" on pages 15 and 16.

Going concern

The Company's condensed consolidated interim financial statements for the three and six months ended June 30, 2011, 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 come due into the foreseeable future.

At June 30, 2011, the Group had unrestricted cash and cash equivalents of $17.1 million (December 31, 2010: $4.7 million) and negative working capital of $8.9 million (December 31, 2010: $73.3 million), primarily attributable to the $40.5 million (€28 million) owed under the bridge loan from the Lundin family due in June 2012. The Company's management expects to repay the bridge loan during the second half of 2011 using financing secured at the project level from the existing non-recourse loan facility with Natixis, WestLB and Mediocreval after the Helios ITA-3 and Nettuno solar power projects are connected to the electricity grid.

FINANCIAL POSITION (CONTINUED)

Going concern (continued)

During the six months ended June 30, 2011, the Group incurred a net loss of $3.6 million (2010: $7.7 million). However, the Company's management is confident that the Group will be able to fund its committed capital investment program and working capital requirements throughout 2011. Nevertheless, the Group's anticipated growth and development activities will require the Group to seek additional funds. The Group anticipates that these funds will be obtained from a combination of cash on hand, additional debt or equity financing, vendor financing and non-recourse loans. The Company's management cannot be certain that capital will be available when needed and as a result, the Group may need to pursue other credit facilities and/or delay discretionary expenditures.

Off-balance sheet arrangements

The Group has no off-balance sheet arrangements.

PRIMARY AND SECONDARY LISTING

Etrion's shares trade on the Toronto Stock Exchange in Canada ("TSX") and the NASDAQ OMX Stockholm exchange in Sweden ("NASDAQ OMX") under the same ticker symbol, "ETX". The Company's primary listing is on the TSX and the Company's secondary listing is on the NASDAQ OMX. The Company's shares trade on the TSX in CAD$ and on the NASDAQ OMX in Swedish krona ("SEK").

CAPITAL INVESTMENTS

The Group plans to make capital investments in 2011 in order to acquire and build ground-mounted solar PV power plants. Etrion plans to finance the acquisition and construction of its projects under development with a combination of cash and cash equivalents, additional corporate debt or equity financing, vendor financing and non-recourse project loans, as required. There is no assurance that debt or equity financing will be available or sufficient to meet these requirements or, if debt or equity financing is available, that it will be available on terms acceptable to the Group. For those projects with financing already secured through non-recourse project loans, no additional capital contributions are expected.

The Group enters into EPC contracts with large international contractors that design, construct, operate and maintain utility-scale solar PV power plants. At June 30, 2011, the Group had EPC contracts outstanding related to the construction of the Helios ITA-3 and Nettuno solar power projects for services in the amount of $48 million (December 31, 2010: $45.4 million). The total cost for constructing these solar power projects has been financed at 84% through the long-term non-recourse loan with Natixis, WestLB and Mediocreval.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In connection with the preparation of the 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, revenue, 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 condensed consolidated interim financial statements were 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 international financial reporting standards. 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

There has been no change to the Group's critical accounting estimates and assumptions used in the preparation of the condensed consolidated interim financial statements from those disclosed in the notes to the Company's consolidated financial statements for the year ended December 31, 2010.

RELATED PARTY TRANSACTIONS

The related party transactions disclosed in the notes to the condensed consolidated interim financial statements for the three and six months ended June 30, 2011, are summarized below.

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.

RELATED PARTY TRANSACTIONS

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 addition, in April 2010, the Company entered into a loan agreement with Lundin Services BV to draw up to $87 million (€60 million). This loan was fully repaid in May 2011.

Then in April 2011, Lundin Services BV subscribed for €8.9 million of the corporate bonds issued by the Company that bear an annual interest rate of 9%.

Lundin Petroleum SA

The Group receives professional services (i.e., administrative support) from Lundin Petroleum SA, a wholly-owned subsidiary of Lundin Petroleum AB.

Lundin family

In order to accelerate construction of the Helios ITA-3 and Nettuno solar power projects, in June 2011, the Company received a $40.5 million (€28 million) bridge loan from the Company's major shareholder, the Lundin family. The bridge loan bears no interest and matures in June 2012. In consideration for the bridge loan, the Company issued 6.5 million common shares to the Lundin family. The fair value of the shares issued of $5.6 million has been accounted for as prepaid interest and will be amortized over the life of the bridge loan. At June 30, 2011, $0.3 million had been recognized in relation to this amount and was capitalized within assets under construction.

In addition, the Lundin family subscribed for €15 million of the corporate bonds issued by the Company in April 2011 that bear an annual interest rate of 9%.

Mr. Northland's exchange right and the Shareholders Agreement

Guaranteed floor

Upon the acquisition of SRH in September 2009, the Company entered into a Shareholders Agreement (the "Agreement") with Mr. Northland, who holds the remaining 10% interest in SRH. The Agreement provides Mr. Northland with the right to exchange his 10% equity interest in SRH, for a period of five years, for an equivalent fair value of shares in the Company with a guaranteed floor on the exchange of €4.0 million. At June 30, 2011, the Company had recognized a liability related to this exchange right of $5.8 million (December 31, 2010: $5.3 million).

RELATED PARTY TRANSACTIONS (CONTINUED)

Mr. Northland's exchange right and the Shareholders Agreement (continued)

Carried interest on the initial investments

The Agreement also provides for any additional funds required by SRH in order to fund its operations up to €17.7 million to be paid by the Company on behalf of Mr. Northland without any fixed term of repayment. At June 30, 2011, the Group had not repaid any of the principal, and the Company's management does not expect any payments to be made in the foreseeable future. At June 30, 2011, no expense had been recognized in relation to this carried interest.

Carried interest on the additional investments

In addition, the Agreement requires the Company to issue loans or shares to Mr. Northland for an amount up to €8.0 million in order for Mr. Northland to maintain his 10% interest in any future equity investments made by the Company into SRH. During the three and six months ended June 30, 2011, a non-cash share-based payment expense of $0.1 million (2010: $0.6 million) and $0.2 million (2010: $1.4 million), respectively, was recognized in relation to this arrangement.

RISKS AND UNCERTAINTIES

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

FINANCIAL

Market risks

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

Cost uncertainty

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

Debt financing

The Company's management anticipates financing a significant portion of the capital costs associated with the construction and development of its renewable energy projects through project or vendor financing. The Group's level of indebtedness from time to time could impair its ability to obtain additional financing and to take advantage of business opportunities that may arise. Failure to comply with facility covenants and obligations could also expose the Group to the risk of seizure or forced sale of some or all of its assets.

FINANCIAL (CONTINUED)

Capital requirements and liquidity

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

NON-FINANCIAL

Licenses and permits

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

Competition

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

Prices and markets for electricity

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

Governmental regulation

The renewable energy sector is subject to extensive government regulation. These regulations are subject to change based on the current and future economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the industries in which the Group operates could lead to delays in the construction or development of additional solar power projects and adversely impair its ability to acquire and develop economic projects, generate adequate internal returns from operating projects and to continue operating in current markets. Specifically, reductions to the FiT could impact the profitability of the Group's future solar power projects. Refer to "Market Overview" on pages 6 and 7.

NON-FINANCIAL (CONTINUED)

International operations

Etrion acquires, develops, builds, owns and operates renewable energy projects, with a current focus in Italy. Renewable energy development and production activities are subject to significant political and economic uncertainties that may adversely affect the Group's performance. Uncertainties include, but are not limited to, the possibility of expropriation, nationalization, renegotiation or nullification of existing or future PPAs, a change in renewable energy pricing policies and a change in taxation policies or the regulatory environment in the jurisdictions and industries in which the Group operates. These uncertainties, all of which are beyond the Group's control, could have a material adverse effect on Etrion's financial position and operating performance. In addition, if legal disputes arise relating to any of the Group's operations, Etrion could be subject to legal claims and litigations within the jurisdiction in which it operates.

Reliance on contractors and key employees

The ability of the Group to conduct its operations is highly dependent on the availability of skilled workers. The labor force in Europe is unionized and politicized, and the Group's operations may be subject to strikes and other disruptions. In addition, the success of the Group is largely dependent upon the performance of its management and key employees. There is a risk that the departure of any member of management or any key employee could have a material adverse effect on the Group.

The Group's business model requires Etrion to rely on qualified and experienced contractors to design, construct and operate its renewable energy projects. There is a risk that such contractors are not available or the price for their services impairs the economic viability of the Group's projects.

DISCLOSURE CONTROLS & INTERNAL CONTROL OVER FINANCIAL REPORTING

In accordance with National Instrument 52-109 *Certification of Disclosures in Issuers Annual and Interim Filings* ("National Instrument 52-109"), the Chief Executive Officer and Chief Financial Officer are required to carry out an evaluation of the following:

- the design and effectiveness of the Group's disclosure controls and procedures ("DC&P"); and
- the design and effectiveness of the Group's internal controls over financial reporting ("ICFR").

The Company's Chief Executive Officer and Chief Financial Officer have not identified any material weakness in the Group's DC&P and ICFR. National Instrument 52-109 allows for a scope limitation on the design of DC&P and ICFR to exclude controls, policies and procedures in respect of any business acquired not more than 365 days before the end of the relevant financial period.

Accordingly, the acquisitions made by the Group that took place after June 30, 2010, have been excluded from the assessment of the Group's DC&P and ICFR, as the operations of these newly acquired entities were not yet integrated into the Group's internal controls, policies and procedures. The Company's management is currently in the process of revising the Group's internal control structure to incorporate the newly acquired subsidiaries.

DISCLOSURE CONTROLS & INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)

The following table shows the summarized financial information for the excluded subsidiaries within the Group's consolidated financial statements for the period ended June 30, 2011:

	Excluded subsidiaries $'000	Group total $'000
Selected financial data		
Total assets	306,035	528,539
Total liabilities	286,957	486,827
Equity	19,078	41,712
Net loss for the period then ended:		
- Three months ended June 30, 2011	(1,365)	(2,142)
- Six months ended June 30, 2011	(1,709)	(3,645)

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Forward-looking information and statements are included throughout this MD&A and include, but are not limited to, statements with respect to: Etrion's plan for future growth and development activities, the expectation that the FiT will be available to certain projects under construction once grid connection is achieved, expectations as to electricity prices, the need for additional capital and the expected sources of such capital and expectations relating to grid parity. The above constitute forward-looking information, within the meaning of applicable Canadian securities legislation, which involves risks, uncertainties and assumptions, including, without limitation: risks associated with operating exclusively in foreign jurisdictions; uncertainties with respect to the receipt or timing of required permits to obtain and construct renewable energy projects and to begin selling electricity therefrom; uncertainties with respect to the availability of suitable additional renewable energy projects; the possibility of project cost overruns or unanticipated costs and expenses or delays in construction; uncertainties relating to the availability and costs of financing needed in the future; risks related to the impact of the new Italian FiT regime; uncertainties with respect to certain information relating to solar electricity revenue that is subject to confirmation of both the applicable FiT to which the Company is entitled by the state-owned company GSE and the applicable spot market price by the local utility for electricity sales to the national grid; the impact of general economic conditions and world-wide industry conditions in the jurisdictions and industries in which the Company operates; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; stock market volatility; opportunities available to or pursued by the Company; and other factors, many of which are beyond the Company's control.

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

ADDITIONAL INFORMATION

Additional information regarding the Company, including its annual information form, may be found on the SEDAR website at **www.sedar.com** or by visiting the Company's website at **www.etrion.com**.