etrion

Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2011

(Unaudited)

Contents

Condensed Consolidated Statement of Comprehensive Income

For the three months ended March 31, 2011
Unaudited
Expressed in US$

	Note	March 31, 2011 $'000	March 31, 2010 $'000
Revenue	5	7,277	-
Operating costs	6	(4,833)	-
Gross profit		**2,444**	**-**
General and administrative expenses	7	(3,634)	(3,017)
Other income	8	1,925	-
Operating income/(loss)		**735**	**(3,017)**
Finance income	9	2,401	188
Finance costs	9	(4,936)	(949)
Net finance costs		**(2,535)**	**(761)**
Loss before income tax		**(1,800)**	**(3,778)**
Income tax recovery	10	279	242
Loss for the period		**(1,521)**	**(3,536)**
Other comprehensive income/(loss) net of tax:			
Gain/(loss) on foreign currency translation adjustment		1,402	(616)
Changes in fair values of cash flow hedges		4,524	-
Total other comprehensive income/(loss)		**5,926**	**(616)**
Total comprehensive income/(loss) for the period		**4,405**	**(4,152)**
Loss attributable to:			
Owners of the parent company		(1,521)	(3,536)
Total comprehensive income/(loss) attributable to:			
Owners of the parent company		4,405	(4,152)
		$	**$**
Basic and diluted loss per share	11	**(0.01)**	**(0.02)**

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

Condensed Consolidated Interim Balance Sheet

As at March 31, 2011
Unaudited
Expressed in US$

	Note	March 31, 2011 $'000	December 31, 2010 $'000
Assets			
Non-current assets			
Property, plant and equipment	12	359,522	341,225
Intangible assets	13	15,625	14,785
Available for sale investments		10,427	10,401
Derivative financial instruments	17	2,906	1,247
Trade and other receivables		29,946	20,175
Total non-current assets		**418,426**	**387,833**
Current assets			
Trade and other receivables		16,272	13,359
Cash and cash equivalents and restricted cash	14	31,605	45,024
Total current assets		**47,877**	**58,383**
Total assets		**466,303**	**446,216**
Equity and liabilities			
Attributable to owners of the Company			
Share capital		17,361	16,741
Contributed surplus		15,374	15,295
Other reserves		8,667	2,741
Accumulated deficit		(1,521)	-
Total equity		**39,881**	**34,777**
Liabilities			
Non-current liabilities			
Borrowings	16	279,917	260,868
Derivative financial instruments	17	1,272	8,830
Deferred tax liabilities		12,437	8,762
Provisions and other liabilities		3,553	1,285
Total non-current liabilities		**297,179**	**279,745**
Current liabilities			
Trade and other payables		31,216	35,931
Current tax liabilities	10	669	1,997
Borrowings	16	90,425	88,089
Derivative financial instruments	17	6,063	4,807
Provisions and other liabilities		870	870
Total current liabilities		**129,243**	**131,694**
Total liabilities		**426,422**	**411,439**
Total equity and liabilities		**466,303**	**446,216**

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, 2011
Unaudited
Expressed in US$

		Attributable to owners of the Company				
	Note	Share capital $'000	Contributed surplus $'000	Other reserves $'000	Accumulated deficit $'000	Total $'000
Balance at January 1, 2010		**107,557**	**10,341**	**(375)**	**(87,889)**	**29,634**
Comprehensive loss:						
- Loss for the period		-	-	-	(3,536)	(3,536)
- Other comprehensive loss:						
Currency translation adjustment		-	-	(616)	-	(616)
Total comprehensive loss		-	-	(616)	(3,536)	(4,152)
Transactions with owners in their capacity as owners:						
- Tax effect of expiration of warrants		-	(261)	-	-	(261)
- Share-based payments	15	-	991	-	-	991
Balance at March 31, 2010		**107,557**	**11,071**	**(991)**	**(91,425)**	**26,212**
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 gain:						
Cash flow hedges (net of tax)		-	-	4,524	-	4,524
Currency translation adjustment		-	-	1,402	-	1,402
Total comprehensive income		-	-	5,926	(1,521)	4,405
Transactions with owners in their capacity as owners:						
- Stock options exercised	15	620	(251)	-	-	369
- Share-based payments	15	-	330	-	-	330
Balance at March 31, 2011		**17,361**	**15,374**	**8,667**	**(1,521)**	**39,881**

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

Condensed Consolidated Interim Statement of Cash Flows

For the three months ended March 31, 2011
Unaudited
Expressed in US$

	Note	March 31, 2011 $'000	March 31, 2010 $'000
Cash flow from operating activities			
Loss for the period		**(1,521)**	**(3,536)**
Adjustments for:			
Depreciation and amortization	6, 7	4,287	41
Net loss on the sale of assets		-	10
Current income tax recovery	10	(1,664)	(242)
Deferred tax expense	10	1,385	-
Interest expense	9	3,412	147
Interest expense relating to interest rate swap arrangements	9	1,019	780
Foreign exchange gain		(429)	-
Changes in fair values of derivative instruments	9	(1,312)	-
Gain from recycling ineffective portion of cash flow hedge	9	(643)	(12)
Amortization of transaction costs	9	167	-
Share-based payment expense	15	332	992
Increase in trade and other receivables		(10,889)	(2,679)
Decrease in trade and other payables		(2,446)	(1,273)
Income tax paid		(943)	-
Total cash used in operating activities		**(9,245)**	**(5,772)**
Cash flow from investing activities			
Purchases of property, plant and equipment		(931)	(284)
Purchases of intangible assets		-	(338)
Total cash flow used in investing activities		**(931)**	**(622)**
Cash flow from financing activities			
Interest paid	16	(4,491)	(115)
Interest paid relating to interest rate swap arrangements		(2,036)	-
Repayment of borrowings	16	(2,433)	-
Proceeds from borrowings	16	2,441	-
Proceeds from stock options exercised	15	369	-
Total cash flow used in financing activities		**(6,150)**	**(115)**
Net decrease in cash and cash equivalents		**(16,326)**	**(6,509)**
Effect of exchange rate differences		2,907	(175)
Cash and cash equivalents and restricted cash at the beginning of the period		45,024	23,448
Cash and cash equivalents and restricted cash at the end of the period		**31,605**	**16,764**

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 ("TSX") and the NASDAQ OMX Stockholm exchange in Sweden, under the same ticker symbol, "ETX".

These condensed consolidated interim financial statements were approved by the Board of Directors and authorized for issue on May 10, 2011. These condensed consolidated interim financial statements have been reviewed, in accordance with the Canadian Auditing Standards, but have not been audited.

The Group is primarily focused on developing, building, owning and operating solar power plants in Italy.

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

2. Summary of significant accounting policies

(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, 2010.

Except as described below, 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, 2010.

(b) Going Concern

These condensed consolidated interim financial statements for the three months ended March 31, 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 March 31, 2011, the Group had unrestricted cash and cash equivalents of $3.1 million (December 31, 2010: $4.7 million) and a negative working capital of $81.4 million, primarily attributable to the amount owing of $80.9 million (€57.0 million) associated with the bridge loan that was due in November 2011. Subsequent to the balance sheet date, in May 2011, the Company repaid the bridge loan using the net proceeds raised from the corporate bond issue, thereby considerably reducing the pressure on the Group's financial position. Note 16 and Note 20

During the first three months of 2011, the Group incurred a net loss of $1.5 million (2010: $3.5 million). However, the Group is confident that it 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 Company's management 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 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.

These condensed consolidated interim financial statements do not include the adjustments that would result if the Group is unable to continue as a going concern.

2. Summary of significant accounting policies (continued)

(c) Changes in accounting policies and disclosures

The Group has adopted the following amendments to standards and interpretations applicable for financial periods beginning on or after January 1, 2011:

- *IAS 24 (revised), Related Party Disclosures:* The revised standard clarifies and simplifies the definition of a related party. The adoption of this revised standard has not had a significant impact on the disclosures of transactions with related parties.
- *Annual improvements 2010*: The annual improvements made in 2010 have not had a significant impact on the Company's condensed consolidated interim financial statements.

3. Critical accounting estimates and assumptions

In connection with the preparation of these 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 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 Group's critical accounting estimates and assumptions used in the preparation of the condensed consolidated interim financial statements from those disclosed in the Company's consolidated financial statements for the year ended December 31, 2010.

4. Segment reporting

The Company's management has determined the operating segments based on reports reviewed by the Board of Directors which are used to make strategic decisions. The Board of Directors considers reportable segments from a products and services perspective and measure performance based on earnings before interest, tax, depreciation and amortization ("EBITDA"). The Company's management has identified two reportable segments; the renewable energy segment, which includes the Group's solar power projects and the oil and gas segment, which includes oil and gas investments.

The following is an analysis of the Group's segment revenues, EBITDA and results for the three months ended March 31, 2011 and 2010:

	Renewable energy $'000	Oil and gas $'000	Corporate and unallocated $'000	Total $'000
March 31, 2011				
Segment revenue	7,277	-	-	7,277
Operating costs (excluding depreciation and amortization)	(610)	-	-	(610)
General and administrative expenses (excluding depreciation and amortization)	(692)	-	(2,878)	(3,570)
Other income	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)
Gain/(loss) before income tax	**1,665**	**-**	**(3,465)**	**(1,800)**
Income tax recovery	249	-	30	279
Gain/(loss) for the period	**1,914**	**-**	**(3,435)**	**(1,521)**
March 31, 2010				
General and administrative expenses (excluding depreciation and amortization)	-	-	2,976	2,976
Segment EBITDA	**-**	**-**	**(2,976)**	**(2,976)**
Depreciation and amortization	-	(17)	(24)	(41)
Finance income	-	-	284	284
Finance costs	-	(1,045)	-	(1,045)
Loss before income tax		**(1,062)**	**(2,716)**	**(3,778)**
Income tax recovery	-	-	242	242
Loss for the period	**-**	**(1,062)**	**(2,474)**	**(3,536)**

4. Segment reporting (continued)

The following is an analysis of the Group's assets and liabilities during the three months ended March 31, 2011 and 2010:

	Renewable energy $'000	Oil and gas $'000	Corporate and unallocated $'000	Total $'000
As at March 31, 2011				
Property, plant and equipment	359,097	-	425	359,522
Intangible assets	12,305	-	3,320	15,625
Available for sale investments	-	10,000	427	10,427
Cash and cash equivalents and restricted cash	28,976	-	2,629	31,605
Other assets	47,603	-	1,521	49,124
Total assets	**447,981**	**10,000**	**8,322**	**466,303**
Borrowings	289,425	-	80,917	370,342
Trade and other payables	22,243	-	8,973	31,216
Other liabilities	22,953	-	1,911	24,864
Total liabilities	**334,621**	**-**	**91,801**	**426,422**
As at December 31, 2010				
Property, plant and equipment	340,883	-	342	341,225
Intangible assets	11,630	-	3,155	14,785
Available for sale investments	-	10,000	401	10,401
Cash and cash equivalents and restricted cash	41,643	-	3,381	45,024
Other assets	32,808	-	1,973	34,781
Total assets	**426,964**	**10,000**	**9,252**	**446,216**
Borrowings	273,733	-	75,224	348,957
Trade and other payables	24,527	1,125	10,279	35,931
Other liabilities	24,671	-	1,880	26,551
Total liabilities	**322,931**	**1,125**	**87,383**	**411,439**

5. Revenue

	March 31, 2011 $'000	March 31, 2010 $'000
Feed-in tariff ("FiT") revenue	5,970	-
Market price revenue	1,307	-
Total	**7,277**	**-**

The Group's operating revenues arise from the sale of electricity to an Italian state-owned company and the operators of the electricity grid. The Italian FiT is a 20-year commitment from the government to purchase 100% of a solar park's electricity production at a constant premium rate. This amount is received directly from the Italian government, through the state-owned company Gestore Servizi Energetici. The market price is the spot market price received in addition to the FiT on electricity produced and is paid by the local utilities, Enel S.p.A. and Terna S.p.A.

6. Operating costs

	March 31, 2011 $'000	March 31, 2010 $'000
Operating and maintenance ("O&M") costs	145	-
Insurance	199	-
Depreciation and amortization	4,223	-
Other operating costs	266	-
Total	**4,833**	-

O&M costs of $0.1 million (2010: $nil) relate to fees paid in connection with the operation and maintenance of the Group's solar power plants in Italy. The Group outsources the operation and maintenance of the plants to external third parties.

7. General and administrative expenses

	March 31, 2011 $'000	March 31, 2010 $'000
Salaries and benefits	1,444	987
Board of Directors' fees	60	60
Professional fees	659	522
Share-based payment expense (non-cash item) Note 15	332	992
Depreciation and amortization	64	41
Office, listing and filing expenses and other general and administrative expenses	1,075	415
Total	**3,634**	**3,017**

8. Other income

During the three months ended March 31, 2011, the Group recognized $1.9 million of liquidated damages relating to delays encountered by the engineering, procurement and construction ("EPC") contractors responsible for the construction of two of Group's solar power projects (SVE and Etrion Lazio).

9. Finance income and costs

	March 31, 2011 $'000	March 31, 2010 $'000
Finance income:		
Changes in fair values of derivative instruments:		
- Interest rate swap contracts	1,312	-
- Ineffective portion reclassified from other comprehensive income	643	-
- Warrants	-	11
Foreign exchange gain	429	177
Other finance income	17	-
Total finance income	**2,401**	**188**
Finance costs:		
Interest rate expense:		
- Credit facilities and non-recourse loans	(2,598)	(32)
- Credit facility with related party Note 16	(890)	-
- Interest rate swap contracts	(1,019)	-
- Amortization of transaction costs	(202)	-
Changes in fair values of derivative instruments:		
- Interest rate swap contracts	-	(917)
Other finance costs	(338)	-
	(5,047)	**(949)**
Amounts capitalized on qualifying assets	111	-
Total finance costs	**(4,936)**	**(949)**
Net finance costs	**(2,535)**	**(761)**

The Group has entered into credit facilities and interest rate swap contracts in order to finance the construction of its solar power projects in Italy. Applicable borrowing costs have been capitalized as assets under construction within property, plant and equipment. Refer to Note 16 and Note 17 for further details on the Group's credit facilities and derivative financial instruments.

For the three months ended March 31, 2011, the Group recognized a fair value gain of $1.3 million (2010: fair value loss of $0.9 million) associated with interest rate swap contracts classified as financial instruments at fair value through profit and loss (SVE and Helios ITA).

For the three months ended March 31, 2011, the Group recognized a gain of $0.6 million relating to the ineffective portion of the cash flow hedges reclassified from other comprehensive income (Cassiopea and Etrion Lazio). In addition, a fair value gain of $4.5 million, net of tax, was recognized in other comprehensive income, relating to the effective portion of the Group's interest rate swap contracts (Cassiopea, Centauro and Etrion Lazio). During the comparable period of 2010, the Group had no interest rate swap contracts classified as cash flow hedges.

10. Income taxes

(a) Income tax recovery

	March 31, 2011 $'000	March 31, 2010 $'000
Current income tax recovery:		
- Corporate income tax recovery/(expense)	1,238	(20)
- Municipal income tax recovery	426	-
- Tax recovery on warrants	-	262
	1,664	**242**
Deferred tax expense:		
- Current period	(641)	-
- Tax losses utilized	(744)	-
	(1,385)	-
Total income tax recovery	**279**	**242**

During the three months ended March 31, 2011, the Group recognized an income tax recovery of $1.7 million associated with its Italian solar plant operations in Italy, based on the forecasted effective tax rate expected during 2011. Due to the seasonality of revenues generated from solar electricity, the Italian subsidiaries recognized taxable losses during the period. During the comparable period in 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 months ended March 31, 2011, the Group recognized a deferred tax expense of $1.4 million (2010: $nil) in relation to temporary differences arising between the tax bases of assets and liabilities and their carrying amounts and utilized tax losses.

(b) Current income tax liabilities

	March 31, 2011 $'000	December 31, 2010 $'000
Corporate income tax	472	1,297
Municipal income tax	197	700
Total	**669**	**1,997**

11. Loss per share

Basic 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, 2011 and 2010 is based on the following data:

	March 31, 2011 $'000	March 31, 2010 $'000
Loss attributable to owners of the Company	(1,521)	(3,536)
	Number of shares	
Weighted average number of outstanding shares	180,255,898	158,501,120
	$	**$**
Basic and diluted loss per share	**(0.01)**	**(0.02)**

11. Loss per share (continued)

Diluted loss per share equals basic loss per share as, due to losses incurred in 2011 and 2010, there is no dilutive effect from the subsisting share options, warrants and exchange rights.

12. Property, plant and equipment

	Land $'000	Solar power plants $'000	Assets under construction $'000	Equipment and furniture $'000	Total $'000
Cost:					
At December 31, 2010	**13,530**	**311,298**	**21,843**	**937**	**347,608**
Additions	-	-	891	94	985
Exchange differences	855	19,686	1,394	22	21,957
At March 31, 2011	**14,385**	**330,984**	**24,128**	**1,053**	**370,550**
Accumulated depreciation:					
At December 31, 2010	**-**	**5,792**	**-**	**591**	**6,383**
Charge for the period	-	4,113	-	29	4,142
Exchange differences	-	500	-	3	503
At March 31, 2011	**-**	**10,405**	**-**	**623**	**11,028**
Net book value:					
At December 31, 2010	13,530	305,506	21,843	346	341,225
At March 31, 2011	**14,385**	**320,579**	**24,128**	**430**	**359,522**

The two Etrion Lazio solar parks (Borgo Piave and Rio Martino) were completed in December 2010. However, they were not connected to the electricity grid until April 2011. At March 31, 2011, the costs associated with these solar parks were included within assets under construction.

13. Intangible assets

	Goodwill $'000	Licenses and permits $'000	Other $'000	Total $'000
Cost:				
At December 31, 2010	**1,866**	**12,847**	**355**	**15,068**
Exchange differences	118	812	22	952
At March 31, 2011	**1,984**	**13,659**	**377**	**16,020**
Accumulated amortization:				
At December 31, 2010	**-**	**283**	**-**	**283**
Charge of the period	-	93	-	93
Exchange differences	-	19	-	19
At March 31, 2011	**-**	**395**	**-**	**395**
Net book value:				
At December 31, 2010	1,866	12,564	355	14,785
At March 31, 2011	1,984	13,264	377	15,625

14. Cash and cash equivalents and restricted cash

The Group's cash and cash equivalents are held in bank accounts of highly rated banks in Canada, Luxembourg, Switzerland, Italy and Venezuela. The fair value of cash and cash equivalents approximates its carrying value due to short maturities.

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

	March 31, 2011 $'000	December 31, 2010 $'000
Unrestricted cash and cash equivalents	3,140	4,748
Cash and cash equivalents restricted to solar power projects	28,465	40,276
Total	**31,605**	**45,024**

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

15. Share-based payments

The Company maintains an equity-settled stock option awards scheme. All outstanding stock options have a contractual term between five and ten years and generally vest over a period of three years. The exercise price is set equal to the market price at the date of grant. In certain circumstances, the Board of Directors may authorize different vesting periods for particular stock options granted. Options are conditional on the employee being active during the vesting period.

During the three months ended March 31, 2011, the Group recognized $0.3 million relating to share-based payments (2010: $1.0 million), of which $0.1 million (2010: $0.7 million) related to the carried interest on the exchange right held by the Company's Chief Executive Officer and Director. Note 18

A summary of the Company's outstanding stock options at March 31, 2011, is as follows:

	Number of Share options	Weighted average exercise price CAD$
At December 31, 2010	**8,052,200**	**0.73**
Granted	485,000	0.66
Forfeited	(1,190,000)	0.97
Exercised	(940,000)	0.39
At March 31, 2011	**6,407,200**	**0.74**
Share options exercisable:		
At December 31, 2010	4,671,668	0.81
At March 31, 2011	2,735,002	0.87

16. Borrowings

	Societe Generale and Dexia $'000	BIIS[1], Societe Generale and WestLB $'000	Barclays $'000	Centrobanca $'000	Natixis, WestLB and Mediocreval $'000	Lundin Services BV $'000	Total $'000
Carrying value at January 1, 2010	-	-	-	**1,279**	-	-	**1,279**
Proceeds from loans	5,290	-	-	11,454	6,320	88,155	111,219
Borrowings assumed on acquisition	40,000	153,552	56,253	-	-	-	249,805
Repayment of loans and interest	(3,041)	(6,239)	(61)	(42)	-	(15,128)	(24,511)
Accrued interest	593	2,373	501	255	-	1,569	5,291
Amortization of transaction costs	46	111	19	66	-	289	531
Exchange difference	3,840	2,233	(1,485)	416	-	339	5,343
Carrying value December 31, 2010	**46,728**	**152,030**	**55,227**	**13,428**	**6,320**	**75,224**	**348,957**
- Current portion	5,039	5,637	1,648	541	-	75,224	88,089
- Non-current portion	41,689	146,393	53,579	12,887	6,320	-	260,868
Carrying value at January 1, 2011	**46,728**	**152,030**	**55,227**	**13,428**	**6,320**	**75,224**	**348,957**
Proceeds from loans	-	-	-	2,441	-	-	2,441
Repayment of loans and interest	-	(5,482)	(1,136)	(229)	(77)	-	(6,924)
Accrued interest	321	1,538	520	143	76	890	3,488
Amortization of transaction costs	25	73	20	17	35	32	202
Exchange difference	2,960	9,637	3,499	910	401	4,771	22,178
Carrying value March 31, 2011	**50,034**	**157,796**	**58,130**	**16,710**	**6,755**	**80,917**	**370,342**
- Current portion	1,784	5,343	1,682	557	142	80,917	90,425
- Non-current portion	48,250	152,453	56,448	16,153	6,613	-	279,917

Note:

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

Subsequent to the balance sheet date, the Company repaid in full the bridge loan provided by a subsidiary of Lundin Petroleum AB. At March 31, 2011, the Group had drawn $78.7 million (€55.4 million) under this facility and owed $80.9 million (€57.0 million), including accrued interest net of transactions costs. Note 18 and 20

17. Derivatives financial instruments

	March 31, 2011 $'000	December 31, 2010 $'000
Derivative financial assets:		
Interest rate swap contracts – cash flow hedge		
- Non-current portion	2,906	1,247
Total derivative financial assets	**2,906**	**1,247**
Derivative financial liabilities:		
Interest rate swap contracts – cash flow hedge		
- Current portion	4,743	3,217
- Non-current portion	35	6,764
Interest rate swap contracts – at fair value through profit and loss		
- Current portion	1,320	1,590
- Non-current portion	1,237	2,066
Total derivative financial liabilities	**7,335**	**13,637**

At March 31, 2011, and December 31, 2010, the Group had two derivative financial instruments classified at fair value through profit and loss (Helios ITA and SVE) and three derivative financial instruments that qualified for hedge accounting (Cassiopea, Centauro and Etrion Lazio). Refer to Note 9 for further details relating to fair value gains recognized during the period.

Refer to Note 21 of the Company's audited consolidated financial statements for the year ended December 31, 2010, for further details pertaining to the Group's derivative financial instruments.

18. Related party disclosure

During the three months ended March 31, 2011 and 2010, the Group entered into the following transactions with related parties:

	March 31, 2011 $'000	March 31, 2010 $'000
General and administrative expenses		
Lundin Services BV	5	31
Lundin Petroleum SA	31	12
Finance costs		
Lundin Services BV		
- Interest expense	890	-
- Loan transaction costs	33	-
Total	**959**	**43**

These related party transactions entered into by the Group were carried out in the normal course of operations and have been contracted on an arm's length basis.

18. Related party disclosure (continued)

At March 31, 2011, and December 31, 2010, the amounts outstanding to related parties were as follows:

	March 31, 2011 $'000	December 31, 2010 $'000
Lundin Services BV		
- Bridge loan	80,917	75,224
- General and administrative expenses	7	32
Lundin Petroleum SA	7	6
Total	**80,931**	**75,262**

There were no amounts outstanding from related parties at March 31, 2011, and December 31, 2010.

(a) 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, 2011 and 2010 were as follows:

	March 31, 2011 $'000	March 31, 2010 $'000
Salaries and short-term benefits, including bonuses	208	194
Pension costs	32	30
Board of Directors (non-executive directors)	60	60
Share-based payment	81	849
Total	**381**	**1,133**

At March 31, 2011, and December 31, 2010, the amounts outstanding to key management personnel were as follows:

	March 31, 2011 $'000	December 31, 2010 $'000
Mr. Northland's guaranteed floor	5,680	5,345
Board of Directors (non-executive directors)	60	60
Other (bonus payable and pension costs payable)	-	704
Total	**5,740**	**6,109**

There were no amounts outstanding from key management personnel at March 31, 2011, and December 31, 2010.

18. Related party disclosure (continued)

(b) Related party transactions

Lundin Services BV

The Group receives professional services (technical and legal) from Lundin Services BV ("Lundin Services"), a wholly-owned subsidiary of Lundin Petroleum AB. The Chief Executive Officer of Lundin Petroleum AB is a Director of the Company and, as a result, any services provided by Lundin Services are based on terms similar to non-arm's length transactions. In addition, in April 2010, the Company entered into a loan agreement with Lundin Services to draw up to $85.2 million (€60 million). At March 31, 2011, the Group had drawn $78.7 million (€55.4 million) under this facility and owed $80.9 million (€57.0 million), including accrued interest net of transactions costs. Subsequent to the balance sheet date, in May 2011, the Company repaid the bridge loan in full. Note 16 and Note 20

Lundin Petroleum SA

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

Mr. Northland's exchange right and the Shareholders Agreement

Guaranteed floor

At the acquisition of SRH in September 2009, the Company entered into a Shareholders Agreement (the "Agreement") with Marco A. Northland, the Chief Executive Officer and Director of the Company ("Mr. Northland"), who holds the remaining 10% interest of SRH. The Agreement provides Mr. Northland with a 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 March 31, 2011, the Company had recognized a liability relating to this exchange right of $5.7 million (December 31, 2010: $5.3 million).

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. Upon the acquisition of SRH, the Group advanced $1.9 million (€1.4 million) to SRH as an intercompany loan with respect to which, under the Agreement, Mr. Northland is entitled to receive 10% of any payments of interest or principal. At March 31, 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 March 31, 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 to maintain Mr. Northland's 10% interest in any future equity investments made by the Company into SRH. During the three months ended March 31, 2011, a share-based payment expense of $0.1 million (2010: $0.7 million) was recognized in relation to this arrangement. Note 15

19. Commitments

Contractual commitments

The Group enters into EPC contracts with large international contractors that design, construct, operate and maintain utility-scale solar photovoltaic ("PV") power plants. At March 31, 2011, the Group had contractual obligations for services in the amounts of $45.3 million (December 31, 2010: $45.4 million) associated with the construction of the Helios ITA 3 solar power project, 81.1% of which was financed through a non-recourse loan. However in April 2011, the Company's management voluntarily delayed the construction of the Helios ITA 3 solar power project and withdrew from all associated contracts. Note 20

20. Subsequent events

(a) Italian FiT

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

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

As a result, the Company's management has voluntarily delayed the construction of the Helios ITA 3 solar power project, which was originally expected to be connected to the grid in the third quarter of 2011, and has withdrawn from all associated contracts. Management is assessing the best way to proceed with the construction of this project in light of the new FiT regime. At March 31, 2011, the Group had $12.3 million capitalized within property, plant and equipment and intangible assets associated with this project.

(b) Corporate bond issue

In April 2011, the Company issued $85.2 million (€60 million) of corporate bonds in the Norwegian bond market at 9% annual interest with a 4-year maturity. Net proceeds from the bond issue were used for early repayment of the bridge loan provided by Lundin Services and for general corporate purposes. Note 16 and Note 18